

A FEARLESS-FORWARD LOOKING-FORTNIGHTLY

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FEARLESS - FORWARD LOOKING - FORTNIGHTLY

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THE OUTLOOK

The President's Message—Limitation of British Imports—New War Loan—The Freight Tie-up—Investment Prospects

SO far as the President's message changes the situation at all, it is helpful to values. The defense of our commerce and of the lives of our citizens on the high seas is our plain duty and would benefit the market. Prices would undoubtedly have improved more if the President had taken a more positive and definite stand. There is still too much "watchful waiting" about his attitude to satisfy the majority of those interested in the markets.

Nevertheless, the statement that our navy would be ready to arm merchant ships and to help defend them if the long-awaited "overt act" appeared, was looked upon as a step in the right direction and to that extent was beneficial to the general tone of the market.

Few care to take a definite position on the market now except those investors who are holding their stocks for income return and refuse to sell at current levels. The fluctuations of prices for the last two weeks have been due largely to professional operations. In some recent markets practically nine-tenths of the business was of professional origin.

Britain's Limitation of Imports

ASIDE from our own international relations, the situation in American business hinges largely upon the possibility of getting our exports across the sea. They are wanted on the other side by the Allies, and we have immense quantities which we could ship and which are for the most part already ordered in advance. But the steady toll of the Teutonic submarines is reducing ocean tonnage to a point that is interfering with the forward movement of our goods, and it is still uncertain how much our own Government is going to help in the actual protection of commerce.

The British decree prohibiting imports of a large number of articles is aimed at freeing ocean tonnage for the carriage of food and war supplies. Some of the prohibited articles which we have been sending to England, are agricultural machinery, typewriters, office equipment, boots and shoes, cotton hosiery, timber, canned salmon, photographic goods, etc. If imports of all these are rigidly excluded the effect on our trade will be of some little importance. The biggest item is leather and tanned skins, which amounted to \$31,000,000 in 1916.

However, special licenses may be granted for the importation of some of these articles. It is difficult to see how England can get along without receiving some of them from abroad for a time at any rate, until English manufacturing and consumption adjust themselves to the new situation.

The British War Loan

THE fact that Britain has raised over \$5,000,000,000 of new money in her war loan just completed amply guarantees the financial ability of the Allies to continue their purchases on this side. Taken in connection with the Allies' control of the gold situation, which enables them to ship us gold as needed for the maintenance of the exchange rate at New York, it is clear that financial exhaustion is still far away.

But with the smaller and smaller supply of ocean tonnage, the ability to pay for more goods may not be the same thing as the ability to get them. That is the feature of the situation which gives our markets pause.

Copper Metal

GREAT BRITAIN and France are again in the market for copper metal for the latter part of 1917 delivery, but there is some haggling over the price. Sales of spot copper have been reported as high as 37 cents a pound, but these sales do not properly represent the level of the market for lots of any considerable size. It is safe to say that the next heavy purchases of copper by the Allies will be made materially below the recent top quotations on spot copper.

There has been a tremendous increase in copper production. The rise from below 15 cents to above 35 cents has made it possible to open up for production a great many mines which could not turn out copper at a profit under any ordinary conditions. Moreover, the new processes which are being used by the big mines have increased their output heavily. The result is that, big as the demand is, the supply is gradually coming up to meet it.

A drop in copper below 20 cents would put a lot of small mines out of business, and it would also bring in a big industrial demand for the metal which is now being "banked up" by the abnormally high price level. It is likely that the copper situation will be more evenly balanced in future, but what with war requirements, postponed peace requirements which must come forward after the war, and the banked-up American domestic demand, it is clear that a large supply of copper can be used at good prices for some time to come.

The leading copper stocks, of course, do not need 35 cent copper to make good profits. In fact, most of them can obtain very satisfactory results on 15 cent copper.

The Freight Embargo

MORE freight is being moved than ten days ago, but some of the conditions causing the tie-up cannot be quickly mended. The cold weather of February, reducing the effectiveness of the railroads' motive power, showed how closely the roads were running to the limit of what their locomotives could do under normal conditions. Additional locomotives cannot be obtained at a moment's notice.

The blockade of freight at the principal ports, because of the interference of the submarine campaign, does not yet seem to be much relieved, in spite of the fact that the number of sailings is increasing. It has now stretched far inland and is seriously interfering with the movement of coal, coke, iron ore and other raw materials needed for manufacturing purposes.

This, in turn, has necessarily checked production in many instances. That will relieve the blockade, but at the expense of the manufacturer's profits. The violent rise in all kinds of food stuffs is another result of the blockade, assisted, it is to be feared, by some of the middlemen. The freeze in the South, the worst for years, has reduced the supply of vegetables.

The decline in bond prices from the high level of January has been chiefly

due to the expectation of a large United States Government loan, which would naturally draw capital away from other bonds.

Another cause for lower bond prices has been the very high yield obtainable on the foreign government bonds actively traded in at New York. On some of these the yield is over 8 per cent., and the temptation to dispose of railroad bonds which yield only $4\frac{1}{2}$ per cent., is naturally very great.

In the latter part of February a better bond market developed, but without much activity. Great as is our surplus of capital at present, the demands upon it are making themselves felt.

The War Stocks

THE recent profits reported by leading companies directly engaged in manufacturing munitions have been less than predicted. In many instances the value of materials on hand has risen to surprising figures, because of the high prices paid, and a great deal of capital is thus tied up. Even Bethlehem Steel has had to borrow at a comparatively high rate of interest in order to get money for current uses.

The boom in this class of securities is not likely to regain its lost momentum. It is in the stocks of the companies furnishing materials that we must look for a new bull movement, if anywhere.

The Public Wary

THE public does not as yet show any indication of joining in a new bull campaign. The big decline of December and January has, of course, left many active traders in a poor position for renewed operations. If they still have stock, a serious loss is shown in most cases.

Nevertheless, there is always a new public to take the place of the old, and it is not lack of funds to speculate with that now prevents an active market.

It is chiefly because the situation depends so largely on factors which cannot be even estimated in advance. The number of ships the Teutonic submarines can sink per month; the effectiveness of the British efforts to protect their shipping and capture the submarines; the action of our own Government in arming American merchant ships or not arming them; the degree to which the President and Congress will decide to enter the war, if at all; and the question whether, after all, the submarines will let American ships pass rather than make an active enemy of the United States—these are problems, obviously, in regard to which predictions are almost useless.

It is the blending of chance and calculation in the stock market that attracts the public. At present the element of chance is altogether too large in proportion to that of calculation. Hence the public is wary.

The Investment Outlook

THIS is a reasonable attitude. Nevertheless, many investment stocks are now yielding large returns in dividends and earnings. The big earnings appear to be temporarily forgotten, but their effects are just as legitimately bullish as ever they were.

Without doubt many stocks may now be safely bought and laid away in the investor's box, provided that he is willing to stand some further decline if it should come. Prices are relatively low.

It is probable, however, that the majority of investors who do not now own stocks will prefer to wait a little longer for some better indications of the outcome, even if they should eventually be compelled to pay a point or two higher for their stocks than the present cost. That is why we have "a waiting market" at the moment.

February 26, 1917.

U. S. Government Financing

Probable Effects of Govt. Bond Issue in the Investment Situation—Precedent of the Spanish War Loans—Never a More Opportune Time for National Financing

By H. I. PERRINE

INVESTMENT conditions in this country during the twelve months of 1916 and up until the latter part of January of this year were the best that have been experienced in a great many years. Not since the prosperous times of 1909 had there been such continued activity and urgent demand for practically all classes of bonds, both those issues listed on the Stock Exchange and those dealt in over the counter. The transactions in foreign government securities and in industrial issues were particularly heavy and many houses interested in these types of securities did more business in the first nine months of 1916 than they did in the whole of 1915, which in itself was a good year. While dealings in the above two classes accounted in great measure for much of the increased business, all bond issues shared in the improvement, and the general advance in prices since the low level of September, 1915, when the effects of heavy foreign liquidation were most severely felt, carried the more representative issues to a new high level.

Reasons for Bond Boom

The reasons underlying this upward movement are not hard to find. With the steady accumulation of investment funds by manufacturers, merchants and business men generally, arising from the prosperous conditions in this country following the war, it was natural that some channel should be sought for this surplus. Much of this money, of course, found its way into the speculative markets, but it is safe to say that by far the greater part found placement in the higher grade bond issues, where the matter of safety of principal was the controlling element. And further it is probable that a large portion of the funds, originally used in the purchase of speculative issues, was later transferred to the more

stable investments following the unsettled conditions of the stock market in the latter part of 1916. The attractive prices at which the large foreign government issues were offered to the public also undoubtedly resulted in heavy buying of these bonds on the assumption that such securities, in the event of a return to normal conditions, are likely to have a larger relative advance in price than any other type of investment, while at the same time affording reasonable safety of principal. The larger importation of gold into this country was also another important factor influencing investment demand, the banks finding it hard to employ their loanable funds profitably, and thus increasing their holdings of bonds to the highest levels ever attained.

During the past few weeks transactions in bonds have been considerably reduced and the investment business has been more restricted than at any time since last mid-summer. A tendency to lower prices has developed and a disinclination on the part of the public to purchase even the higher grade issues has been noticeable. A lessening of the investment demand is not unusual at this time of the year, following the heavy placement of funds in January and the early part of February, but the existing conditions are due, of course, to the uncertainties connected with the present international situation. Relations with Germany have been severed, the German Ambassador has departed, foreign trade has been partially blockaded and further serious complications are likely to arise from time to time. Under these circumstances it is not to be wondered at that investors are inclined to defer purchasing until some of these uncertainties are eliminated. In fact, when the possibilities of the present situation are analyzed, it seems remarkable that bond prices have held up so well.

The Rush to Liquidate

One of the complications arising out of the situation, which is generally expected to have a disturbing effect upon investment conditions in this country, is the probable issue by this country of a large government loan. It is thought that such an issue coming at a time when so many foreign governments are looking to this market for their supply of capital, would result in a substantial increase in money rates with a corresponding decline in bond prices. Hence the rush to liquidate securities of all classes following the announcement of the break with Germany, resulting in a decline of from 1 to 3 points in the general bond market, and the disposition of investors to hold off until the new government bonds have been offered for sale, resulting in the comparative inactivity in the bond business. Whether or not this view of the situation is correct, there seems little doubt but that this prospect of a huge U. S. Government loan had more to do with the recent unsettling of investment conditions than any of the other disturbing factors. As to what effect such a flotation of bonds is likely to have upon the future trend of the bond market, depends largely upon the size of the loan, on the form it takes, upon the interest rate it is to bear, and upon the reception which it meets.

Need for Government Financing

Regardless of whether or not the United States enters the European conflict, there will have to be a government bond issue of some description to clear up the present deficit of approximately \$150,000,000 and to pay for ships, guns, ammunition, etc., under the preparedness measure. The present revenue bill, now before congress, contemplates bond issues that will increase our national debt by at least three hundred million dollars. If this country becomes actively engaged in the war its expenses of course will mount rapidly and large additional loans will have to be issued to take care of these requirements. For present purposes, however, it is thought that an issue of \$300,000,000 would suffice and it is believed that a loan of this size could easily

be floated at a rate as low as 3 per cent. This amount would provide sufficient funds to tide the government over until the income tax receipts become available in June, at which time additional bonds could be issued for such contingencies as might arise, at a slightly higher interest rate. In the event of future financing on a higher income basis, protection could be given to the subscriber to the initial loan through the medium of a conversion privilege, whereby the original bonds could be exchanged for those of a later issue on a more attractive basis. Such a privilege would practically insure a hearty reception for the loan on the part of the public and would serve to maintain the price of the bonds at or near their offering prices. This convertible feature has been employed to excellent advantage by Great Britain in offering her war loans and is a matter of the greatest importance where any future financing is contemplated.

Effect on Investment Market

The effect of this contemplated bond issue on the investment market is rather difficult to determine at the present time owing to the fact that there is no information available as to the kind of a loan the government will issue. Much would seem to depend upon the size of the loan and upon the interest rate which the bonds will carry. Too high an interest rate would naturally cause a sharp decline in the prices of other investment securities. Too low a rate on the other hand would not appeal to the public and the bonds, consequently, would be apt to go too slow, particularly in the case of a large issue. In either event money rates would doubtless work temporarily higher since the borrowing would tie up a considerable amount of credit until the funds obtained were distributed. Should a 3 per cent rate be decided on, however, and a conversion privilege into future issues be given, there seems little reason to believe that the flotation of such an issue would have any permanent disturbing effect upon the general bond market. In case this country becomes involved in the war, and further government financing made necessary on a more attractive in-

come basis, a rise in interest rates would naturally be expected. This situation would be still further aggravated should this country be forced into competition with foreign governments in financing its requirements. In this connection it is interesting to observe that many of the foreign government bonds in this market are selling at prices to yield an unusually high return, although having excellent security and attractive convertible features. It is understood that plans are under way involving further financing of foreign countries, including France, Canada and some South American Republics, and it is expected that a large part of these funds will be sought in this market. The requirements of France and Canada together are said to total \$200,000,000, but if the United States is seriously in need of funds, foreign financing will, of course, be given second consideration.

An Opportune Time

There has probably never been a time in the history of this country when conditions were better suited to the flotation of a large government loan. There is to-day more money in the United States than ever before and banking interests are prepared to make any government loan an unqualified success. Considerable interest has been given to the proposed issue, and there is little question but that even a large offering of this character could be readily absorbed within a comparatively short time. Financially the United States is prepared for any emergency, and, while the outcome of the present international situation is of course a matter of much uncertainty, it is felt that this country is strong enough to withstand

any development that the future may have in store. Under these circumstances it is apparent that a sale of government bonds can be easily arranged.

In connection with this discussion it is interesting to call attention to our last war loan which was made on the occasion of the Spanish War in 1898. Those bonds were authorized to the amount of \$400,000,000, of which a trifle less than \$200,000,000 were issued in denominations of \$20 or multiples thereof. The issue bore a 3 per cent interest rate and it was provided that the bonds should be first offered at par as a popular loan in such a way as to give every citizen an opportunity to subscribe. In allotting the bonds subscriptions of individuals were to be first accepted and the subscriptions for the lowest amount were to be first allotted. The offering met with such a ready response from the public that it was subscribed more than seven times over, and the bonds in a few days soon advanced to 102. The number of subscriptions received was 320,226, the most popular subscription being for \$500 bonds of which the number was 180,573. In 1901 these bonds sold at a substantial premium, reaching a price of close to 112.

The amount of funds available for investment at that time was by no means as large as is the case today, and the fact that the war loan of 1908 was so easily absorbed seems to assure the instant success of the present offering. While conditions in the investment field were somewhat different then than now, there seems every reason to believe that the present contemplated issue will be rapidly taken, provided that the interest rate and form meet the approval of the investment public.

Paper and Slate

"My profits are largely on paper," remarked the broker.

"Mine are on the slate," chimed in the fox coal dealer, with a wink.—*The Lamb*.

Investment for Safety and Income

Important Facts That the Careful Investor Should Know — Principles Governing the Issue of Bonds, and the Various Types, Forms and Classes of Bonds on the Market

By RICHARD HOADLEY TINGLEY

IN this, the first of a series of articles to appear in this magazine on bonds for investment, it is fitting, as a preliminary, to briefly discuss bonds in general; the principles upon which they rest, and the various types, forms and classes into which they are divided. Subsequent articles in the series will, in turn, deal with railroad bonds, public utility bonds, industrial and bonds of other non-regulated companies; municipal and state bonds and national issues.

Definition

A bond is an interest bearing obligation issued by a corporation, municipality or a government, in which it is promised to pay a specified sum of money at a given time. A bond is usually secured by a mortgage on the property of the issuing company, the mortgage distinctly stating the character, location and the amount of such property. In the case of a company or corporation, it is to the net earning power that one must look for ability to pay the interest charges. In the case of municipal, state or government bonds, it is the taxes levied on property that must cover this charge. It is to the sufficiency and permanence of these sources of income that an investor must look before purchasing.

Types or Forms of Bonds

There are three general types or forms of bonds in common use: the coupon bond, to which is attached as many coupons as there are interest dates occurring during its life, each coupon being good for its proportionate part of the interest due to the particular bond to which it is attached, be it of denomination of \$100, \$500, \$1,000 or more. Coupon bonds "pass by delivery," in other words, both interest and principal are payable to bearer. This is much the more popular form of bond. Another form is a coupon bond that is registered as to principal,

and still a third, that is registered as to both principal and interest. All three types or forms are a direct obligation of the company issuing them, the two latter, however, are registered, as to principal or as to principal and interest, as the case may be, so that only the owner of record (registry) may collect, except by written assignment to another.

Classes of Bonds

It was the original scheme of things in corporate affairs that, in the issuing of bonds, they should be secured by a first mortgage on all of the property owned by, or in the future to be acquired by the company. The development of modern business has, however, evolved many other classes of bonds, and, although the first mortgage bonds on a property are always the most desirable securities to own and hold, and command the highest price in the market, yet the bonds based on lesser and junior liens have a standing that is well recognized, and investors should inform themselves in which class their bonds belong before purchasing.

There are many properties that are composed of a number of separate parts gathered into one company, each of the component parts originally being an independent entity, with its own securities outstanding, including its own first mortgage bonds. The parent company, in such cases, needing to raise further funds for increasing its business or plant, or for making improvements or betterments, has been obliged to devise some new kind of a bond to cover this condition.

The result is the evolution of many different types of lesser liens, among which are the first and refunding bonds, the consolidated first mortgage bonds and the general mortgage bonds, these being usually a first mortgage on some portion of the property, although this portion may be, and often is, small. Such bonds ultimately become a first mortgage on all

of the property as the prior liens mature, and are paid, either in cash or by exchange for the new bonds, the latter being the much more usual practice. There are mortgages maturing regularly that have no means provided for being paid except by an exchange of new bonds (refunding bonds which have, by this time, become a first mortgage), or by the sale of these bonds to the public to provide funds for their payment.

Improvement mortgage bonds are what their name implies and are usually a direct mortgage on the special improvements made possible by their sale, subject only to the claims of the underlying bonds.

Convertible bonds are often issued and are sometimes popular, especially with the large and prosperous companies. They are in no sense a first mortgage and never will be, though they are a direct obligation of the issuing company, to be taken care of after prior liens have been disposed of. They carry a fixed rate of interest, and the holders thereof have the right, at stated times and under stated conditions, to exchange them for stock in the company, usually at a very favorable rating of bond value. Many of the large and well-rated companies have several issues of "convertibles." The Atchison has three, the issues of 1905, 1909 and 1910, maturing in 1955, 1955 and 1960 respectively, all bearing 4 per cent interest. The American Telephone and Telegraph Company has two. The Detroit Edison two, the Norfolk and Western two, the Erie Two, etc.

Debenture bonds are of various types. They are often arranged so that they rank equally with any other bonds of any class that the company may in the

future issue, though their rating with respect to bonds already outstanding is the lowest in the list.

Collateral trust bonds are a form of junior lien, based on a pledge of other collateral of the company as security. The collateral is usually the common stock of the company, though sometimes it includes certain specified bonds, and often both bonds and stock.

Income bonds are entitled only to receive their interest at a stated date when and if the same is earned after taking care of other prior liens and claims. Income bonds are almost outside the class of "investments," and really belong in the semi-speculative category.

Equipment bonds, equipment notes and car trust notes are issued to pay for certain specified equipments and usually mature serially. They are a direct obligation against the particular equipment bought with proceeds, and are thus a popular form of investment. Since the mortgage obligation remains until the last serial instalment has been paid, it is evident that the bonds become more and more valuable as they approach final maturity.

Short term notes represent a temporary method of raising money, and are resorted to at times when interest rates are high, or when the market for long term obligations is depressed. They usually carry a comparatively high rate of interest and are often popular for this reason. As is almost universally the case, however, there is no provision made for payment at maturity other than by the issue and sale or exchange of same for the long term obligations of which they are the forerunners.

(To be continued)

THE GREAT STEEL INDUSTRY

The value of steel and iron exports from the United States in 1916 reached the remarkable total of \$867,000,000, observes the *Evening Sun*. This was 132 per cent. greater than in 1915, which in turn was 32 per cent. greater than any previous record. Before the war Germany was the chief exporter of steel; the United States is now the largest producer and exporter. And the climax of this expansion in our steel industry does not appear to have been reached. American corporations contemplate the expenditure of further vast sums. The United States Steel Corporation and the Bethlehem Steel Company alone, it is reported, are planning to spend in the neighborhood of \$400,000,000 on new plants.

"Book" Values Versus "Market" Values

Why These Terms Are Not Interchangeable—Which Represents *Real* Value—No Close Relation Between the Two Terms—A Clear Exposition of an Important Topic

By THEODORE N. SMALL

ACCOUNTING parlance is responsible for the term "Book Value," though its meaning is by no means well defined. Commonly accepted, book value is represented by the assets of a company as they appear in the balance sheets, as distinguished from "Market Value." Net book value, by the excess of assets over liabilities. Economic nomenclature, not always evolved in the light of facts, sometimes makes the term "Capitalization," synonymous with the par value of "Capital Securities" issued.

In fact, however, there is an important distinction that should be recognized. Capitalization is the amount at which a property is carried on the books; that is, capital account, book value. The property may be paid for by the issue of securities at par (which seldom happens), at a premium (which is infrequent), or at a discount (which is quite usual), also, by the reinvestment of net revenue. In the case of premium on securities, there is an excess of capitalization over capital securities. In the case of discount, the excess is in capital securities over capitalization, and in the case of property paid for in part out of revenue or income, there is an excess of cost of property over both capitalization and capital securities. These distinctions are not usually disclosed in published financial returns, or are brought out in such a way as not to be readily recognized or understood, and a confusion of the terms has caused much misunderstanding in corporation questions.

Stated in still another way, the book assets (capitalization of a company) represent its property: Liabilities, which embrace capital securities issued, denote relative ownership.

Value

There are few terms in economic terminology that have been so widely confused and misused as the word value, in its various phases and modifications. The definition is clear enough. Webster's Universal Dictionary states it as, "In Political Economy, worth, as estimated by the power of purchasing or being exchanged for other commodities."

The terms value or valuation should never be used to express a physical inventory or list of a property, or of the component parts thereof, as they very frequently are. "Appraisal" would be a much more fitting term. Value and valuation should only be used in connection with commercial worth: the amount of money that a property will bring in a market where there is a willingness to sell and a willingness to buy. In considering value or worth, both seller and buyer will take into account the appraisal of the component physical parts resulting from an inventory. This will be the least potent consideration, however, and much more weight will be given to past records of earnings, both gross and net, and the possibilities or probabilities of future continuance or increase or decrease. Coupled with these, weight will be given to the possibility of disposing of the property again at some future time, or its "Market Value."

Market Value

The market value or worth of the capital securities of a corporation, as reflected by the day to day quotations upon the exchange or exchanges upon which these may be listed, is not always an index to their true value. In the case of nearly every company,

particularly the larger ones, the proportion of its issues that is thus "on the exchange," is always relatively small. Experience has abundantly and often demonstrated that when pressure to sell or buy extends beyond a very limited volume of its current supply, the previously existing quotations for these relatively small lots, afford but little indication of the price at which larger quantities can be marketed or bought. The ownership and control of a corporation or of a company is vested in its capital stock. It is manifestly erroneous, however, for reasons stated above, to say that the value of the stock of a company, either of the whole of it, or of a controlling portion of it, is very closely associated with the day to day market quotations. This value, or the price at

required to be kept. In other business, in the merchandizing and industrial companies, however, no such strict supervision exists and the published reconsidered always as reliable a basis for accurate information as in the case of "regulated" business.

Scanning the balance sheets of such companies, a great variety of methods and practices may be seen. Justification must be found somewhere for the stock, bond, note and other obligations outstanding. These are real things and must appear in the liabilities side of the sheet. Accordingly, the assets' side must be made up so that, applying a desired and often, perhaps, a predetermined surplus, a balance will be seemingly struck. Property account, real estate, buildings, machinery, etc., usually consume a large part

COMPARISON SHOWING DISCREPANCY BETWEEN "BOOK VALUES" AND "MARKET VALUES" OF A LARGE INDUSTRIAL AND AN IMPORTANT RAILROAD

	American Wool Company		Delaware, Lackawanna and Western Railroad	
	1914	1915	1914	1915
Book value as expressed by capital securities (stock)	\$60,000,000	\$60,000,000	\$42,277,000	\$42,277,000
Book value as expressed by published balance sheets	80,670,486	81,984,636	116,541,768	123,130,046
Market value of securities—highest record for the year	37,375,000	51,500,000	171,961,698	100,619,260

which large quantities (control) of the stock can be bought, must be the result of private negotiations; the almost universal result being a price somewhat under the current market.

Bookkeeping

In certain details, modern accounting methods have been brought to a high degree of efficiency, and for certain purposes have been thoroughly systematized and standardized. In municipal and state accountancy, in the practice laid down by the Interstate Commerce Commission for the railroads, and in that promulgated by the various state public service and utilities commissions, there is very little opportunity for exercise of the imagination in the book accounts that are

of the assets side of the sheet; from 50 to 90 per cent. is quite common. Turns of such corporations are not. These items, it is very difficult for an outsider to check up or prove (or disprove). If there is intent to mislead or to cloud the issue, here is a good place to do it, and without much danger of detection. For this reason, the published balance sheet assets of a company, not coming under strict regulatory supervision are not always looked upon with confidence.

With many industrials, patent rights, and trade marks, good will and the like, figures largely among the book values. There is no uniformity, however, regarding this practice and it apparently depends upon the whim of the company, whether or not any

money value will be placed against such items, or possibly it may depend upon whether or not any money value is needed against them in order to properly balance the liabilities that cannot be manipulated.

To illustrate: The B. T. Babbitt Company carries on its books "good will," "Trade Marks" at \$2,421,497, its entire book assets being but \$4,843,350, and capital securities amounting to \$3,000,000 stock and \$387,000 bonds. Contrasting with this, the Pabst Brewing Company, with a book value of upwards of \$15,000,000, puts no money value on good will or trade marks.

Book Value and Market Value Compared

That there exists no close relation between book value and market value, as these terms are commonly used, needs little demonstration. To illustrate this, the case of the United States Steel Corporation is cited.

The published report of this corporation for the year ended December 31, 1915, gives a book value (assets) of \$1,848,541,861 as against capital securities issued amounting to \$1,485,604,048. Applying the high and low market prices for 1915 to these secur-

ities as the same are quoted on the New York Stock Exchange, the result is a so-called market value of \$1,524,401,623 and \$1,182,756,900 respectively. No comment is needed on the discrepancy between these amounts.

Conclusions

That a little clearer understanding of the meaning of the term Value, and more particularly of Valuation is needed, is quite evident; that there is room for some reform, and particularly of standardization of accounting methods of merchandizing and industrial companies is, too, open to argument, and that there is practically no relation existing between so-called book value and market value would seem to be a proven fact. Custom, usage and precedent, however, all follow the dictionary, or rather the reverse, and have given the dictum that value is a relation in exchange, that is in commerce; and there is no value that is not commercial value and that all economic value is value in use, and is, in no manner, related to or controlled by, cost, and that there can be no fixed or even continuing or constant relation between either cost or real value.

THE TRENCHES OF PROSPERITY—A PEACE MAP FOR 1917



MONEY--BANKING--BUSINESS

Leading Opinions

About Financial, Investment and Business Conditions

"War Loans Will Be Paid"—F. J. Wade

Festus J. Wade, president of the Mercantile Trust Company, and the Mercantile National Bank of St. Louis, recently delivered an address before the fourth annual convention of the National Foreign Trade Council. During his talk he said that the enormous loans made to the warring countries of Europe are good investments, and asserted that to develop foreign trade, American business men must develop credit among foreign nations.



—Chicago Examiner.
UNCLE SAM: "DON'T GET EXCITED."

"There is misconception in the minds of the public concerning the loans to the warring nations of Europe, for beyond the peradventure of a doubt, these loans will be paid at maturity and they will prove prime investments for the public," said Mr. Wade. "The warring nations, you must remember, have at this time only borrowed three-fourths of 1 per cent. of their national wealth."

"Post-War Shipping Depression"—F. C. Munson

A considerable decline in ocean freight rates and consequent depression in general shipping conditions shortly after the end of the war, due to a falling off in the world's commerce, is foreseen by F. C. Munson, president of the Munson Steamship Line. In this opinion, expressed in an interview granted to *The Journal of Commerce*, Mr. Munson is supported by many shipping men, but equal support is found for the belief that after a brief slump immediately following the conclusion of hostilities several years of prosperity will be experienced. Mr. Munson, who was asked for his opinion as to the effect on shipping at the end of the war, said:

"The effect of the end of the war is bound to be the lowering of rates, but it will be gradual or quick, according to the amount of tonnage that may be available to take its place in the regular channels of trade throughout the world.

"The present cause of high rates is the shortage of tonnage caused, first, by the internment of all German tonnage, and, second, by loss from mines, torpedoing and marine risks of a large amount of British and neutral tonnage of the world's fleet. The amount of tonnage so destroyed since the beginning of the war up to Nov. 1, 1916, is approximately 5,500,000 to 6,000,000 dead-weight tons. In addition to these sources, there has been a large amount of tonnage removed by requisition on the part of the British Government. This tonnage cannot be accurately estimated, but there is a very small proportion of the usual number of British steamers now navigating in the commerce of all neutral countries."

Mackay Opposes Gov't Ownership

In response to a request from Senator Francis G. Newlands, chairman of the joint Congress Committee on Interstate Commerce, Clarence H. Mackay has set forth in an open letter to the Senator the views of the Postal Telegraph-Cable Company and the Commercial Cable Company regarding the efficiency of the telegraph system in America and the wis-

dom or feasibility of government ownership.

He says competition between the Postal and Western Union companies has resulted in better service than the Government ever could give; admittedly far superior to any service in Europe, where government ownership prevails.

Mr. Mackay says government ownership in this country would mean a great annual deficit if European government telegraphs or the United States Post Office are taken as precedents.

"Government ownership cannot compete with private enterprise. The first act of government ownership is to strangle every form of competition, to destroy every instrument by which the efficiency and economy of government owned enterprise can be measured."

No Excessive War Profits

That excessive profits are to be prevented in the event of hostilities is indicated by the fact that the Council of National Defense has called on the Chamber of Commerce of the United States for assistance and advice in purchases to be made by the army quartermasters. The National Chamber recently passed a resolution providing that the basis of supply of Government requirements in war and peace from private sources should be at a rate of profit so low as to preclude a profit interest in war.

Secretary Baker, who is president of the Council of National Defense, has written to President Rhett requesting the National Chamber to appoint such local committees, through affiliated commercial organizations throughout the country, as may be necessary to co-operate with the district depot quartermasters in the purchasing of supplies now authorized by law.

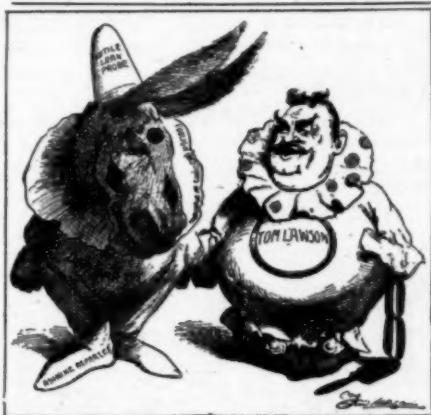
"The Chamber of Commerce of the United States will gladly respond to Secretary Baker's call," said Bascom Little, chairman of the National Chamber Committee on National Defense and former president of the Cleveland Chamber of Commerce, "because it feels that the special knowledge of many of its members concerning business problems and policies could be of value to the Government, particularly in relation to the very large purchases of supplies of all kinds for the military service."

Attacks Fed.

Reserve System

Charges that the Federal Reserve Bank of New York is attempting to

coerce the New York State banks into accepting its plan of check collecting are made by E. C. McDougal, president of the Association of the State Banks of New York, in a letter addressed to State banks and trust companies not in clearing house cities.



—Philadelphia Enquirer.

THE LEAK PROBE CIRCUS AT WASHINGTON. Lawson (to the democratic donkey): "Which of us is the biggest Jackass?"

He makes the assertion that a systematic attack upon the State banking system has been under way for some time. He declares that the State banks are entitled to impose a charge for the work of collecting checks and that their only wish is to be let alone. Any feeling of rivalry for the Federal Reserve Board or a disposition to oppose its operation are denied.

U. S. Oil Supply Rapidly Declining

Methods of conserving this country's natural supplies of oil and gas were discussed by members of the American Institute of Mining Engineers at a meeting held recently in the Engineers' Society Building. Eight members of the Naval Consulting Board were present, and scientists from other countries were present, including mining engineers from Japan.

Professor David B. Reger, assistant in the West Virginia Geological Survey, presented a paper in which he declared that experts estimated that the petroleum resources of the United States were already 36 per cent. exhausted and that the operators of the country were experiencing great difficulty in supplying the ever-increasing demand for this product. The States pro-

ducing paraffin oil exclusively were already 45 per cent. exhausted, Dr. Reger said. He suggested that the supply might be increased materially by searching for new sources by means of deep digging for sand oil and gas, particularly in the Appalachian district.

"Railroads Need Money"—Ivy Lee

"Last year not a single share of stock was listed in the Stock Exchange for new railroad building in the United States. It was the first year since railroads were invented that no one was willing to take chances in the investment of money for new railroad building in the United States."

Ivy L. Lee thus summed up the rail-

"This is not because the railroads do not know what is needed and are not eager to go ahead. The fact is that railroad managers are 'chafing at the bit'—they know what ought to be done, but they are powerless to do it. And all of that for this obvious reason: the railroads cannot get the money."

Our Potash Output Jumps

A remarkable expansion in the American potash industry has resulted from efforts to make the United States independent of foreign sources for the potash used in munitions and for other purposes. Although the boom did not get under way until late in 1916 production during the calendar year reached a value ten times as great as that of 1915.

The 1916 production is estimated in a preliminary report published to-day by the *Geological Survey* at 10,000 tons, with a value of \$3,500,000. The estimate is based on incomplete returns, which to date have accounted for 8,830 tons. In 1917, the report says, with the boom in full swing a much greater total will be shown.

Of the 8,830 tons reported 5,750 was produced from mineral and 3,080 from organic sources. Natural salts and brines yielded 3,850 tons, alunite and silicate rocks, 1,900 tons; kelp, 1,110 tons; pearlash, 200 tons, and miscellaneous industrial waste, 1,750 tons.

Gov't Control of Shipping

An Administration bill amending the Shipping Board Act and giving the President power to take possession in time of national emergency of vessels under construction for foreign purchasers in American shipyards has been reported to the House by the Committee on Merchant Marine and Fisheries. The committee says more than 675,000 tons gross of vessels are now being built in American shipyards for aliens.

Chairman Alexander's explanatory report on the bill says:

"Section 5 of the Shipping Act provides that neither the board nor any corporation formed under Section 11 in which the United States is a stockholder shall purchase, lease or charter any vessel which is under the registry or flag of a foreign country which is then engaged in war. The committee amendment provides that the purchase, lease or charter of such a vessel may be made with the express consent and approval of the President. There may be circum-



—N. Y. Globe.

BUILDING THEM UP AT THE ELEVENTH HOUR.

road situation in a recent address at Jersey City. He continued:

"The most alarming feature of the present railroad situation, involving as it does congestion and shortage of facilities throughout the country, is that comprehensive plans are not being made to provide against similar crises in the future.

"Railroads cannot be built in a day. To-day railroads are living from hand to mouth. A good deal of money is being spent, but it is only for improvements which are absolutely required to handle the business of the moment. Railroads are not taking a long look into the future and making provision for carrying the normal increase in the country's trade.

stances under which it may be desirable for the board to have this power in the event the exercise of that power to those circumstances where the President gives his express consent and approval will be a safeguard against its unwise exercise. We assume that the President will withhold his consent in cases that might involve our country in international complications.

High Record Exports

The high water mark in exports was made in January. The total was \$613,441,020, which is \$100,000,000 above the mark set in December. The *Bureau of Foreign and Domestic Commerce*, analyzing the figures, said that the record was mainly due to advanced prices, and that the volume of goods shipped abroad was not as large as it had been in some other months. No other January has ever shown such a heavy value of foreign trade.

Imports for January were \$241,674,851, a decided increase over the \$204,834,188 of December and the \$176,988,305 of November. Both imports and exports for January show decided increases over any previous January.

The total exports for the seven months ending with January were \$3,614,244,066, as against \$2,182,898,752 and \$1,334,660,148, respectively, for the same periods in 1916 and 1915. For the twelve months ending with January the total exports were \$5,764,828,199, as against \$3,616,827,944 in the same period in 1916, and \$2,177,436,760 for a like period in 1915. The trade totals for the years ending January, 1917, 1916 and 1915 were \$8,213,806,443, \$5,457,627,264 and \$3,934,118,155, respectively.

Plants at Gov't Disposal

As a result of the strained relations between this country and Germany and the possible declaration of war, hundreds of the largest firms and corporations in this country, representing many different kinds of industries, have recently sent to the Federal Government at Washington assurances that their services and plants are at the disposal of the Government for the manufacture of supplies and military material in the event of war.

Secretary of the Navy Daniels, to whom many of the offers have been made, on February 6 issued a list of ninety persons and firms who had up to that time put their entire resources at the disposal of the Government. The list included the names of many of the chief industrial concerns in this country and

represented billions of dollars of invested capital. Additional offers, it is said, are continually being received at Washington, and although great financial sacrifices are entailed, inasmuch as many of the concerns have already accepted huge orders for substantial profits which would take months to fill, the loyalty of the industries to the Government in case of war is manifested in each and every offer.

Pig Iron Output

Production of pig iron in January fell off from that of December almost 28,000 tons. Returns show a total of



PROBABLE ORIGIN OF THE STOCK TICKER.

3,150,938 tons, against 3,178,647 tons for December. The daily rate was 101,643 tons, or about 900 tons less than in December. This represents the lowest daily output since November, 1915.

There was one more furnace in blast on February 1 than on January 1, the total being 312, but the capacity is somewhat less, being 101,886 tons per day, against a rate of 101,975 tons daily on January 1. At that the going rate is now only 4½ per cent below the average throughout 1916. Comparative figures, according to the *Iron Age*, follow, in gross tons:

	1917	1916	1915
January	3,150,938	3,185,121	1,601,421
	1916	1915	1914
December	3,178,647	3,203,322	1,515,752
November	3,311,811	3,037,308	1,518,316
October	3,508,849	3,125,491	1,778,186
September	3,202,366	2,852,561	1,882,577
August	3,203,713	2,779,647	1,995,261
July	3,224,513	2,563,420	1,957,645
June	3,211,588	2,380,827	1,917,783
May	3,361,073	2,263,470	2,092,686
April	3,227,768	2,116,494	2,269,995
March	3,337,691	2,063,834	2,347,867
February	3,087,212	1,674,771	1,888,670

With the Financial Watchers

Knauth, Nachod & Co.—The outlook is naturally clouded by the international complications. The ramifications of world war have been so far reaching as to make it almost inevitable that sooner or later the people of this country should become more directly concerned with the conflict. These developments have naturally checked business enterprise, although a note of cautious optimism is observable everywhere. Underlying conditions are so sound and the country's economic strength so powerful that it is believed American prosperity will continue for a considerable period at least.

No one can possibly foresee just what will happen if this nation becomes directly involved in war. What has happened in the stock market has been in a high degree suggestive. The market was, in a measure, prepared for the shock by the long period of liquidation which preceded the announcement of the break in diplomatic relations with Germany.

The result was that the declines were much less severe than they would have been under conditions prevailing last year, and the resistance shown by the best railroad stocks was remarkable. Many of the best industrial stocks rallied quickly after the initial weakness, and have since maintained a fair degree of strength.

In the bond market the disturbance has been less severe, although there has been some liquidation of the lower interest bearing bonds, including railroad and municipal issues, in anticipation of the proposed United States Government loan. However, the principal effect has been to restrict trading rather than to cause liquidation.

Hayden, Stone & Co.—The market has experienced the first real liquidation that has taken place since the war market started two years ago. It has discounted a great deal, whether one is of the opinion that this country is to become embroiled or that peace is close at hand; in fact, the intrinsic value of many stocks is equal to their present price, even on a normal peace basis.

The banking situation is sound for the first time in many months. We do not say that the speculative possibilities exist today that existed two years ago, for that would be out of the question. But we do say that any great calamity from this level is most improbable and that, with the probability of excellent earnings for the greater part of this year to be added to what has already been realized, the constructive side, in spite of the many troubles that threaten, seems to us the logical one to adopt.

Keane, Zayas & Potts.—When trading in the stock market falls from the million-shares-a-day level to below the 300,000-mark

and sales of bonds decline from \$6,000,000 a day to less than \$2,000,000 in a period when money is as plentiful and cheap as it is today and when investors and traders are so keenly alive to the opportunities offering in securities—when conditions such as these suddenly supervene in any market, there is only one reasonable explanation to offer for them, and that explanation can be expressed in one word: CAUTION. It is well to be wary in times like these, but it isn't well to be too wary, for there is a point at which even caution overreaches and defeats itself.

It isn't fear of war that is holding trading in check; it is fear among speculators and investors that the first shock of war will send stocks to a lower level than now obtains and that, unless they hold off and wait for the expected collapse in prices, they will miss an opportunity such as occurs only at long and infrequent intervals. Investors large and small and speculators of all calibers are scanning the news bulletins in feverish expectancy; they are prepared to buy, and are waiting only for the signal—WAR—to accumulate stocks on the break in the market.

In our opinion stocks will rise in a war market, but if war comes we do not look for, and we believe the public should and would discountenance any boom in or any attempt to boom the munitions or ordnance shares.

The spirit of patriotism will manifest itself as certainly and as truly on the Stock Exchange as in the Halls of Congress and in the conduct of every representative American institution.

Sheldon, Morgan & Co.—For more than two weeks the market has shown evidences of an over-sold condition. Without doubt it is in a good position to withstand a shock such as the declaration of actual war, and it is not likely that on this news there would be anything like the outpouring of stock occasioned by the "peace leak" and submarine news.

That the attitude of the United States toward the German stand is becoming more and more determined is shown by the war-like speech of Senator Pomerene, known to be very close to President Wilson.

War may be unavoidable, but its coming has surely been largely discounted during the last two months.

An effort to mark up prices was checked by the British admission of the seriousness of the blockade. At present indications, however, it seems unlikely that this blockade, while tending to hurt our exports, will fully achieve its aim.

The opinion is that the copper and steel stocks offer the best likelihood of profits in the future for investors who have been looking for bargains and who believe external influences cannot permanently harm the values in American companies.

Co-operating With Your Broker

Elemental Principles of Buying and Selling Securities —
Knowledge of Rules Saves Losses — Methods of
Placing Orders — Stock Exchange, Curb
and Unlisted Securities

By LAWRENCE S. RENZER

THE MAGAZINE OF WALL STREET receives hundreds of inquiries bearing on the relationship, in a business way, of client and broker. These inquiries are very seldom so serious as to require legal interference, and almost all of them bear upon some misunderstanding on the part of the client with the ordinary customs of brokerage. These articles purpose to deal with some of the very elementary rules and regulations of the brokerage business. They may be well known to the consistent trader or investor, but the casual investor or the beginner should observe them carefully.

The Order

When the client has made a careful study of the firm with which he purposes to trade, has investigated its responsibility, appreciated its reputation for good service, and is satisfied with the integrity of the partners, he desires to give an order for the purchase or sale of securities. If the order is given over the telephone the client must first be certain that the recipient of the order is a responsible person; that is, a partner, the office manager, one of the customer's managers, or the accredited order clerk. It is well to be certain of the name of the representative of the firm receiving the order over the telephone and when the order is given the man who receives it should be obliged to repeat it back, after writing it down, so as to avoid all errors. The telephone order should also be confirmed by letter from the customer. If the order is given at the office of the broker it may be verbally given, but it should be written on a regular order form and signed by the customer. Every safeguard possible should surround the giving of an order and when the order is filled the customer must make certain

that he receives a written notice within a very reasonable time.

Safeguards

When the customer desires to change the limit or price of an order already placed with the broker it is very necessary not to forget to cancel the original order. This oversight has been the cause of large losses; for the broker, especially when busy, places the burden of correctness of orders on the customer. In an active office so many hundreds of orders are placed every day that the order department becomes mechanical, much as a typesetter of manuscript.

In an active market, when the ticker is far behind in time, the customer may be surprised to find his market order filled at a price points or fractions of points some distance away from the ticker price at the time he placed the order. If he is in the broker's office at the time, he may verify the purchase or sale price by following the ticker. If he is at a distance from the office he must rely upon the integrity of his broker. On a fairly active day in stocks orders placed before the opening of the market should be given not later than 9:45 A. M., because the confusion on the Exchange during the last fifteen minutes before the opening is so great that a late order may be filled some minutes after the opening and the opening price lost. In this case the broker cannot be held responsible.

On all inactive stocks, the client should ask for the bid and offered price before placing a market order, also if the order is for an 'odd lot,' less than 100 shares, and the opening of the stock reads on the tape "5000 Union opened from 140 to 137" the client must be satisfied with any fair average. The custom is for the odd lot brokers to make an opening price for odd lots arbitrarily between the above

prices and all clients must abide to this decision.

Stop Orders

The "stop order" has caused more controversies than any other kind of an order because the general run of customers do not understand what a stop order means. Suppose the customer owns fifty shares of U. S. Steel at 107 and gives his order to the broker to sell this fifty shares at "104 stop." There are three possibilities for the fulfilling of this order. The order is not good until Steel sells at 104. As soon as a sale is made at this price the stop order becomes effective. If other brokers are bidding 104 for more Steel, the customer will get 104 for his fifty shares. If only one order was desired at 104 and the original sale was made on this one bid, leaving the best bid at 103 $\frac{3}{4}$, the customer will get the later price. The stop order at 104 is not a limited order. It never means that the customer will get 104 for his stock, although he may get this price. It means that as soon as a sale is made at 104 the stop order automatically becomes a "market" order for any price. If the customer entered this order Monday evening, when Steel closed at 105, and on Tuesday morning Steel opened at 102, the customer would receive a price of 102 or less on his order to sell "stop" at 104.

If the customer had his stop order in to sell his Steel at 104, and the following day Steel opened 10 points lower, or at 94, the order, automatically becoming a market order, would be filled at the best obtainable price near 94 the opening price.

The customer must always bear in mind that the placing of a stop order is not a guarantee that he will get the stop price. The result may be very much lower, but the stop order is the best obtainable insurance for the trader.

Bond Orders

Orders in bonds are rarely if ever given at the market, unless the issue to be purchased or sold is a very active one. It is always safe to get a quotation on bonds before giving an order. On the Exchange the bond dealers are the most arbitrary of any class of security dealers

and great care must be used in this department. Almost all members of the Exchanges find it best to give their orders to the regular bond dealers who form a class by themselves. Whenever possible, ask for a "firm" bid or offer which means that such quotation is not apt to be withdrawn at once.

Curb Orders

When giving orders in Curb securities, unless the customer has an accurate knowledge of the market, it is much safer to put in a limited order first and ask for a quotation. Sometimes the difference between the bid and offered price is very far apart and there is no way to check up the purchase by watching the ticker, for there is no ticker. Curb orders must be very carefully given and practically entire reliance must be placed in the broker. There does exist a so-called official list of Curb sales, but it is not accurate by any means because there are no regular reporters such as the Stock Exchange uses, and the broker may report his sale on the Curb or he may not.

Official Lists

If the customer gets his report of a purchase or sale at a price which does not appear on the ticker reporting such sales for the Exchange; if, in addition, the newspapers and so-called official stock exchange list does not show a transaction at this price for the day, the customer may make his broker prove such a transaction, and if it is correctly compared with the broker at the other side of the transaction it must be placed on the official lists as sent out by the Exchange. If the official lists will not print such a transaction, there is something wrong which should be investigated by the customer at once, even to taking the matter up with the broker whose name appears upon the report as having been the second party to the transaction, or the Secretary's Department of the New York Stock Exchange.

Unlisted Orders

The most dangerous pitfall for the customer relative to orders is in the inactive, unlisted stocks or bonds traded in "over the counter," or private sales between brokers. Giving a market order

in this class of security is inviting a loss. Brokers of this nature make their livelihood by trading for their own account and not as agent, so everything depends upon the integrity of the broker. In every transaction of this nature at least two "unlisted" brokers should be made to compete on a quotation and the quotation should be given on the "firm" basis. In untechnical language, the broker should be asked for a quotation which would remain constant for several minutes for the purpose of comparison. If the customer is dealing through a regular commission house in this class of stock or bonds, he may ask the firm to give him the name of the "outside" or "unlisted" broker quoting or demand several quotations.

Kinds of Orders

An order given during the day, unless otherwise specified, means that it is only good for the day on which the order was given. If the customer sends in a letter, "Sell 100 Steel at 105," the broker is privileged to accept this order for the day only. The customer may mean the order to be good until filled, but he must say so in his letter, or he must not object if the order is cancelled at the end of the day.

The following are various forms of orders:

1. The simple command without other notation means good for the day only.

2. An order accompanied by the letters G. T. W. means that it may be kept good until the closing of the market on the Saturday following the day the order was given. Good This Week.

3. An order marked G. T. C. means that it is good, or to be kept live until countermanded. Its life is at the command of the customer. Good Till Countermanded.

The G. T. C. order is the favorite order of the investor and its permanent feature, until filled, makes it the best of the order systems. Customers should always specify this G. T. C. when giving orders so as not to confuse the broker with a day order.

4. Stop orders may be placed under any of the above three forms.

5. Unless otherwise marked, any of the above four forms means that the customer, when the transaction is completed, expects to deliver or receive the stock or security before 2.15 P. M. the following day, except in case of Friday when the transaction is completed on Monday.

6. If the customer desires to sell a security which he will not be able to deliver to the broker for two or three days, he may sell "at three days" or "seller three," which gives him the privilege of waiting that time or making delivery on one day's notice to the buyer.

7. Another form of selling or buying is with a thirty-day extension, which follows the three-day form in like manner.

8. Estates selling securities which need legal papers, or Western customers, or foreign customers, selling inactive stocks or bonds which cannot easily be borrowed, often sell "delayed delivery" which is in reality a kind of gentlemen's agreement between the brokers to wait any reasonable length of time for the completion of the transaction.

General Suggestions

In cases where the purchase or sale of "when as and if issued" securities are involved, it is well to consult the broker before placing the order to find out what kind of contracts are necessary. The same applies to reorganization securities where the certificates are not issued.

Do not lose your temper when you believe that you have been unjustly treated; for there may be a perfectly good reason. If in serious doubt, consult authorities, such as the Inquiry Department of the MAGAZINE OF WALL STREET, and present both sides of the case and all the facts. Only as a last resort consult the legal features of a difference. Oftentimes a compromise can be effected and it costs less. Be absolutely clear and in giving a bond order, always describe the bond in full, giving the "due date" of the bond, and interest periods. Be certain to designate "common," "preferred" or "first preferred," etc., when dealing in stocks, and if the stock is in process of reorganization, where a committee issues certificates of deposit, designate that you desire to deal in certificates and not stock.

The Study of Finance

Taking Advantage of What Others Have Learned—Necessity and Value of Financial Study—The "Mistakes" Method and the Rational Method

By R. L. BURDICK

THE successful investor makes no secret of his method of attaining correct financial judgment; most men who have made and kept money through investment in securities give their formula: "study." On every side one hears the advice "Study the market!" and its repetition here may seem superfluous. That it is not superfluous is evidenced by the large number of so-called investors and speculators who prove their lack of knowledge by failure. No one in this or any other line of business can study too much, but there are many who think a smattering of investment knowledge is enough.

No one, of course, can assert truthfully that even a lengthy and earnest study of finance is sure to bring success, but history has shown that those who have achieved the greatest financial gain have been close students of the subject. There are two methods by which knowledge of this kind can be obtained. One—all too frequently used—is through the bitter experience of making mistakes. The other, and the rational method, is for the student of finance to take advantage of what others have learned, by making their codified experience a part of his own fund of information through a careful perusal of specialized books on finance.

As in any other branch of learning there is no royal road here, no short cut or get-rich-quick trail. Only through painstaking and serious endeavor is the end surely attainable. But, on the other hand, there is nothing inherently difficult about it.

Three Essentials of Study

In the teaching of a child three essentials are apparent; an impetus to study; a well organized course of

study; and the proper material for study. With the mature mind the essentials are similar in principle but different in character. A child needs a teacher to hold a figurative club over its head to drive him on to study; the self-impetus has not yet developed. In an older person the desire for knowledge is the impelling factor. Again, the youngster cannot be handed an outline or syllabus and told to study books covering the topics outlined, but a grown-up can search out his own textbooks, disregarding irrelevant and unimportant material and concentrating on the essentials.

The course of study, however, is often difficult for even a mature and experienced man to lay out. The point of departure, the order and relation of the topics, the balance between theory and practice, the decision between good and fallacious customs are questions which make too great demands on the time and patience of the student who is desirous of plunging at once into his work.

It is, then, to meet this requirement that the following brief synopsis is offered for those who would spend the time and energy to acquire a knowledge of economics and finance which will lead to wiser and more successful investment. If nothing else, such knowledge is some insurance against serious errors which may involve considerable monetary loss.

Certain books are recommended (in parentheses under the various headings) because of their particular applicability to the suggested outline, but there are others equally excellent and the student should not confine himself to these alone. For careful study and most satisfactory results the textbooks should be purchased and kept for ready reference.

Methods of Study

As to the method of study little can be said, each individual has his own best means of assimilating information. The simplest way is to read slowly and but little at a time, classifying each new fact with those previously accumulated, and comparing it with observed conditions from day to day. Even the most keen mind will not be pushed; a sufficient time must elapse "between doses" for best results. When the whole ground has been covered it should be gone over again at least once. Each time will give a fuller understanding of the details because of the broader viewpoint and practical experience. Above all, the actual financial conditions, the daily changing world of finance, must be observed, analyzed and studied.

Synopsis of Finance

I. The Basic Scientific Theory.

A. Elementary Economics.

(Ely & Wicker's *Elementary Economics*.)

1. *Production*: A knowledge of this factor is essential to an understanding of mining securities and commodity dealing—

(Gannett, Garrison & Houston's *Commercial Geography*.)

a. *Agricultural raw materials*: Wheat, cotton, other produce.

(Myrick's *Book of Wheat*; Zeller's *Cotton Facts*; Miller's *Cotton Trade Guide*; Smith's *Wheat Fields and Markets of the World*.)

b. *Mining*: Copper, gold, silver, etc.

The Mines Handbook; Hoover's *Principles of Mining*; Nicholas' *Mining Investments and How to Judge Them*.)

2. *Transportation*: Which involves railroad and marine securities—

(Johnson's *Elements of Railroad Transportation*; Cleveland & Powell's *Railroad Finance*.)

a. *Equipment*.

b. *Labor*.

c. *Rates*.

d. *Government control*.

3. *Manufacture*: The industrial issues are included here—

(Brisco's *Economics of Business*.)

a. *Specialization of industries*.

b. *Labor and management*.

(Gillman's *Methods of Industrial Peace*.)

c. *Efficiency of production*.

(Emerson's *Twelve Principles of Efficiency*.)

d. *Industrial progress*.

(McVey's *Modern Industrialism*.)

4. *Exchange*: On which the store securities depend—

a. *Law of supply and demand—the tariff*.

b. *Medium of exchange—money and currency*.

(Johnson's *Money and Currency*.)

c. *Credit*.

d. *Banking*.

(Holdsworth's *Money and Banking*.)

B. Elementary Finance.

1. *Municipal, State and Federal finance*.

(Noyes' *Forty Years of American Finance*.)

2. *Corporate organisation*.

(Conyngton's *Corporate Organization*.)

3. *Corporation finance*—

(Meade's *Corporation Finance*.)

a. *Preferred stock*.

b. *Common stock*.

c. *Bonds*.

d. *Mortgages*.

e. *Loans and notes*.

f. *Other debentures*.

4. *Corporation management*.

5. *Receivership, re-organizations, consolidations*.

6. *Trusts*.

(Ripley's *Trusts, Pools and Corporations*.)

Note: This part of the subject is outlined in detail because it is important that a thoroughly sound basis be made for further study. These are the scientific principles which are behind all economic and financial activity.

II. *Fundamental Conditions of the Financial World*. These are the factors on which all successful business is founded.

(Browne's *How to Read the Financial Page*; Babson's *Business Barometers*.)

A. *Position of the stock market in larger cycles*.

(Gibson's *Cycles of Speculation*.)

B. *Bond prices and yields as a measure of prosperity*.

C. *Monetary conditions*: Banking transactions, gold supply.

(Gibson's *Increasing Gold Supply*; Norton's *Statistical Studies in the New York Money Market*.)

D. *Foreign trade*: Balance of trade.

E. *Commodity prices and wages*.

F. *Business conditions*, real estate development, earnings of corporations.

Note: When the significance of these points is mastered, a continuous observation and

record of changing conditions is essential for a correct judgment of present conditions of finance.

III. Immediate Factors of Security Price Movements.

(Selden's *Psychology of the Stock Market*.)

A. *The shorter cycle of stock fluctuations.*

B. *The psychology of investment and speculation.*

C. *News and its effect: Discounting, "tips" and rumors.*

D. *The panic and the boom.* Peculiar conditions governing and following them. (Burton's *Crises and Depressions*.)

E. *The "powers that be."*

Note: This field is particularly broad and cannot be studied too much. Constant observation and analysis is necessary from an impartial and rational viewpoint. Should be supplemented by an examination of stock market history.

IV. The Investor's "Modus Operandi."

A. *Financial terms.*

(Smith's *Financial Dictionary*.)

B. *Machinery of stock exchanges.*

(Selden's *Machinery of Wall Street*.)

C. *The stock broker, the bond house, the client.* Standing, customs and legal relations.

(Campbell's *Law of Stock Brokers*; Chamberlain's *Work of a Bond House*.)

D. *Accountancy of investment.*

(Salier's *Accounting an Investor Should Know*.)

E. *Judging values of securities.*

(Selden's *Investing for Profit*; Investors Pocket Manual.)

F. *Investment for income and safety.*

(Lownhaupt's *What an Investor Should Know*.)

G. *Speculation.*

(*The Business of Trading in Stocks*, by "B"; *Fourteen Methods of Operating in the Stock Market*; Prill's *Trading in Wheat*; Wyckoff's *Studies in Tape Reading*.)

Note: The three last, involving action based upon the whole of the other study, are the crux of the financial study. Success or failure in them is absolutely dependent on a thorough knowledge of the underlying principles. No sane man would think of attempting a major surgical operation without a comprehensive knowledge of anatomy and physiology—the scientific principles—and a working skill in the practice of surgery. No more can an investor hope to be successful in the highly technical and complicated profession of security purchase and sale whether the sum involved be small or large, or whether the purpose be purely safe investment of funds for a rainy day or speculative risk, without the scientific knowledge of this field.

A Financial Library

First and foremost the financial page of the daily newspaper merits attention. Most persons interested in finance read it, to be sure, but few give it the careful study it deserves. The final editions of the *Evening Sun* and *Evening Post* are among the best New York evening papers for this purpose and the New York *Times* is a satisfactory morning digest of financial news. For a clear understanding of the myriad and seemingly unrelated statistics of the financial page, no better aid can be found than Scribner, Browne's little book, "*How to Read the Financial Page*." This book also covers briefly but excellently the topics of Section II above.

For a wider view of economic and financial conditions of the past, present and future, the MAGAZINE OF WALL STREET meets the investors' requirements. Fortified with these guides a good share of the battle is won.

Editorial Note: Special arrangements have been made for supplying readers with any of these volumes at publisher's prices. For information, address Librarian, The Magazine of Wall Street, 42 Broadway, New York.

STUDY

Our modern experience proves conclusively that there is no great difference in the value of subjects of study. Any subject really worthy of study, if pursued long enough, will give power and culture. No subject can give either of these results if studied but for a short time.—Robert J. Aley.

Money and Exchange

Demands on Our Capital — Weakness in Rubles and Lire

THE money market, like the investment markets, is waiting. The moderate advance in money rates which has occurred since January, amounting to about one per cent on commercial paper and time money, has been mostly due to the prospect of a U. S. Government loan of unknown amount.

Such a loan could hardly be less than \$500,000,000, and in case an actual state of war arises with Germany loans might have to be several times that during 1917. It is, in fact, strong testimony to the abundance of our capital supplies that money rates have not risen further in the face of these possibilities.

Demands on our capital will, of course, come from many other directions also. The \$250,000,000 which Britain recently borrowed here on collateral was hardly more than enough to pay for the Allies' purchases from us in a single month. Without question the Allies will borrow more if possible. Britain is already commandeering American securities held in England to serve as collateral for more loans, or to be sold here if necessary.

Canada will borrow heavily in the near future. Doubtless most of her loans will be taken at home, but some will be absorbed on this side of the line. South America looks to us for capital, having now nowhere else to look.

Our railroads need capital—need it badly, in order to bring their facilities up to meet the heavy volume of business now being offered them. But at present they are temporizing, because of the low prices at which their bonds would have to be sold in competition with foreign Government bonds, yielding in some instances more than 8 per cent. With the early prospect of having to compete with the U. S. Government also in the capital

market, it is not to be wondered at that the Southern Railway and other companies are putting off their bond issues.

On the other hand, the Allies will borrow at home so far as they can, except for loans here needed to support the rate of foreign exchange—in other words, to pay for their purchases from us—for they can sell bonds at home at a much better price than they can here. The price at which the Anglo-French 5s and the Russian bonds are selling here looks absurdly low to the Allied Powers.

Our money rate for the remainder of 1917 depends very largely on the amounts of gold the Allies ship to us. They control the world's gold market, through their grip on production and their large stores of gold held for war purposes. They are using paper money at home and thus releasing gold, which can be sent to us as may be necessary to support exchange here, and to furnish a cash base for further borrowing from us. Since the last British notes were successfully sold here, gold imports have fallen off, but if the Allies can get our goods across the ocean they will send us more gold to help pay the bill.

With the increasing demands on our capital, the broad tendency of money rates is likely to be slowly upward.

The feature of the foreign exchange market is the weakness of Russian rubles and Italian lire. The former are selling at a discount of about 45 per cent. and the latter at 30 per cent. below par. Sterling exchange is, of course, being supported by the British Government. Exchange on Berlin has not been much influenced by the new war crisis with us. It has shown a somewhat firmer tendency, which is ascribed to small withdrawals of German deposits from our banks.

AN INCOME TAX PUZZLER

An American citizen who has just returned from Colon, Panama, is puzzled as to how he will account for an item of \$7,500 income on his next income tax statement. This citizen, while in Colon, paid \$10 for a lottery ticket and won \$7,500. If he had been within the jurisdiction of Uncle Sam while holding his lottery ticket he would have been subject to arrest and a fine of \$5,000. Uncle Sam, he argues, since he does not recognize lotteries as legal, cannot exact a tax on lottery winnings. This man is inclined to hold out on the government, fearing that he will become a suspected person if he tells the truth.—*Wall Street Journal*.



Great Northern—Northern Pacific

Is Anything Wrong with the Hill Roads? — An Answer to an Important Question — Operating Ratios — Ripening Burlington "Melon"

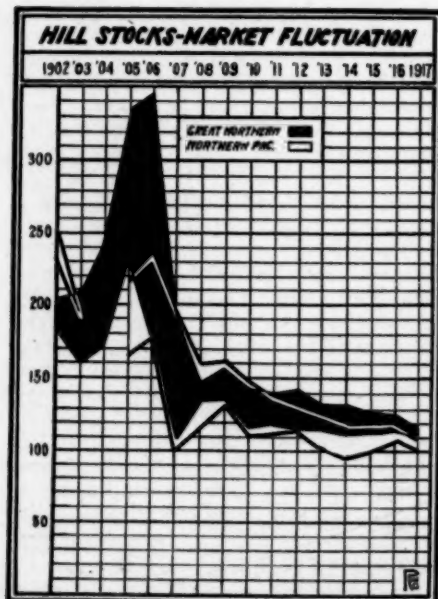
By WALTER McNAUGHTON

AN impression seems to prevail in some quarters that the Hill roads, so-called, are no longer the properties they used to be, while the "Old Man" was about; that operating results are

and the Burlington became less bright; in fact, dubious. Is there any justification for harboring such an impression? Is there anything the matter with the Hill roads? Let us review briefly the present situation of these railroads with regard to their earnings and then run back over the results achieved by them in the last few years, having regard, of course, for the conditions which prevailed and which were not of the railroads' making.

The Current Situation

The Great Northern, Hill's barometer of business conditions and in whose traffic fluctuations he constantly observed what he called "the pulse of the Northwest" is currently earning an equivalent of 9.30% on its preferred stock (there is no common), which compares with 11.06% actually earned in 1916 fiscal year, and 8.27 in the 1915 year. For the six months ended December 31, last, the indicated earnings on the stock were equal to 6.95% compared with 8.18% in the corresponding 1916 period and 6.83% in the 1915 period. Northern Pacific is earning at the rate of 10.40% this year, making allowances for the seasonal variations in traffic, and this compares with an actual return on its \$248,000,000 of capital stock of 10.37% in 1916 and 7.59% in 1915. The indicated earnings for the half year to December 31, 1916, are equivalent to 5.38% as against 4.88% in the preceding similar period. Chicago, Bur-



poorer; that the internal organism is no longer keyed-up to the top notch; that, in a word, with the passing of James J. Hill, the outlook for the Great Northern, Hill's "pet road," the Northern Pacific

lington & Quincy gives promise of earning better than 26% for its \$110,-800,000 of common stock in 1917 and on which it earned 25.59% in 1916 and 15.59% in 1915.

The Wheat Crop Factor

By the comparison with its two brothers, the Great Northern is apparently not doing so well. But the explanation for this is not far afield. Great Northern traverses a greater proportion of agricultural land, much of it given to

Northern with those of 1916, comparison is made with a record year's expansion that was not equaled by the other Hill roads or any other Northwest system excepting the St. Paul. Great Northern's gross expanded over \$14,000,000 in 1916 and net over \$7,000,000. And that the road was perfectly able to handle that vast volume of new tonnage; that, in fact, it brought greater efficiency to bear than ever before, is vouchsafed in the proportion of operation expenses to gross earnings which were kept at a ratio

TABLE I

OPERATING RATIOS ON THE THREE HILL ROADS AND TWO COMPETITIVE SYSTEMS.

Year	Gt. Northern	Nor. Pac.	Burlington	St. Paul	C. & N. W.
1916	54.04%	53.16%	60.3%	70.4%	73.1%
1915	54.83	58.7	66.3	72.9	75.3
1914	62.16	61.2	67.5	71.6	76.3
1913	58.28	61.5	66.6	70.9	74.4
1912	56.89	60.2	69.9	80.2	76.2

wheat production, than any other railroad having standing as a trans-continental. And what a failure the wheat crop was last year is still remembered. How many millions of bushels less of wheat Great Northern carried last season than in the 1916 season when it moved some 177,-000,000 bushels of grain, is not yet

of 54.04 per cent. of gross as against 54.83% in 1915 and higher ratios in preceding years.

A railroad cannot operate efficiently unless its properties and various facilities are in good condition. And the nearer perfect the conditions of its transportation plant are, the higher the degree

TABLE II

CAPITALIZATION, PER MILE, OF THE HILL ROADS.

	1916	1913	1910
Gt. Northern			
Capital stock	\$26,472	\$23,366	\$25,345
Funded debt	15,203	15,985	13,203
Total	\$41,675	\$39,351	\$38,548
Northern Pacific			
Capital stock	\$24,955	\$26,171	\$28,447
Bonds	31,549	31,655	34,247
Total	\$56,504	\$57,826	\$62,694
Burlington			
Capital stock	\$8,545	\$8,904	\$9,158
Funded debt	13,866	14,278	14,901
Total	\$22,411	\$23,182	\$24,059

known, but the decline in gross and net earnings will probably be traceable in its entirety to the loss of grain tonnage. Scarcity of grain ships on the Pacific Coast was another factor.

It should also be remembered that in comparing the current earnings of Great

of efficiency, allowing, of course, that the operating management of a railroad knows how to operate efficiently with what it has. The proverbial low operating costs of the Hill roads are a byword in railroading and, while the low cost of operating is directly attributable to

heavier car and train loading than is achieved on other systems, it nevertheless implies a high standard of physical perfection. The Hill roads today are in every bit as good physical condition as they were when the late James J. Hill was actively in the saddle and every disinterested railroad operating man who knows the Northwest and who has been over the various lines that traverse that vast country will testify to it and to the added fact that there is no standard in railroading that is higher than the Hill standard.

Low Operating Ratios

In an accompanying tabulation is shown the operating ratios of the several

railroads were able to handle the flux of new business at the saving in operating costs that these three systems were able to. Proportionately, Great Northern's expenditures were about the same to gross revenues as in the preceding year, though slightly less; Northern Pacific's saving was pronounced, the 1916 ratio being 53.16 per cent. as against 58.7 per cent. in 1915 and the Burlington's even more pronounced, the ratio being 60.3 per cent. in 1916 as compared with 66.3 per cent. in 1915.

As to the future of the Hill roads not being as bright now as it was while Hill was still alive; all three systems have a splendid operating organization. Every individual in that organization has virtu-

TABLE III
SKELETONIZED INCOME ACCOUNTS FOR THE FIVE YEARS 1912 TO 1916

Year	Great Northern					
	Gross Revs.	Net Revs.	Total Income	Fixed Chgs.	P. C. Earned on Stock	Surplus
1916	\$81,262,478	\$37,348,402	\$35,061,822	\$7,461,202	11.06	\$2,287,027
1915	67,162,858	30,334,583	28,015,114	7,396,844	8.27	2,096,762
1914	76,854,937	29,085,163	27,776,452	7,322,901	8.85	3,311,572
1913	78,692,767	32,833,513	31,884,418	7,316,104	11.69	4,282,168
1912	66,197,819	28,535,271	28,870,498	7,216,243	10.31	2,703,273
Year	Northern Pacific					
	Gross Revs.	Net Revs.	Total Income	Fixed Chgs.	P. C. Earned on Stock	Surplus
1916	\$75,939,231	\$35,572,819	\$38,972,448	\$13,242,574	10.37	\$8,369,874
1915	63,171,653	23,063,604	32,031,453	13,208,633	7.59	1,462,820
1914	70,449,575	27,367,118	27,896,658	8,331,340	7.92	2,295,247
1913	72,676,139	28,002,841	28,938,506	7,374,988	8.69	3,453,518
1912	63,423,947	25,265,430	26,870,944	7,207,129	7.93	2,303,815
Year	Chicago, Burlington & Quincy					
	Gross Revs.	Net Revs.	Total Income	Fixed Chgs.	P. C. Earned on Stock	Surplus
1916	\$102,358,893	\$40,645,732	\$38,581,045	\$10,552,455	25.29	\$6,330,102
1915	91,125,061	30,683,694	27,802,097	10,513,185	15.59	5,081,115
1914	93,687,141	30,462,288	27,739,989	10,625,581	15.44	2,531,404
1913	94,374,485	31,531,594	29,800,475	10,369,729	17.34	2,915,875
1912	86,723,068	26,076,119	24,801,404	10,694,651	12.73	1,295,410

Hill roads compared with the other two standard systems of the Northwest. A brief survey of these will convince any reader of the efficiency achieved on the Hill lines and the excellent physical condition that is implied in that efficiency. It was the low operating ratio of the Great Northern with its somewhat more difficult traffic problems that made a well-known eastern banker remark sometime ago: "If that man Hill does not look out his net will be larger than his gross."

Like nearly all other railroads in the country the Hill roads established record gross earnings in 1916. But not many

ally grown up with the system he is on and each has been thoroughly drilled in the "Hill school" of efficiency. Last summer, when Louis W. Hill, the president of the Great Northern was in New York, he said in part: "Great Northern's outlook is highly favorable. We have a splendid organization on the road and holders of stock can feel the greatest assurance of continuance of the highly efficient operating results on the property. Practically everyone in the organization has grown up with the road and all have as earnest an interest in the property as they could possibly have in their own

personal affairs. The company serves a wonderful country and opportunities for development and expansion are still very great."

Hill Roads' Earnings

And what Louis W. Hill said of the Great Northern is in greater measure applicable to the Northern Pacific and the Burlington. Herewith will be found skeletonized income accounts of the three Hill systems in which is depicted the growth in the last five years. These tabulations speak more or less for themselves and indicate the excellent positions the roads are in. The positions of the Great Northern and the Northern Pacific are made substantially stronger than appears in these tables by reason of the equity these two systems have in the Burlington, which is known as the "Show Property" of the Hill group.

The Burlington Equity

The Burlington, which has been re-

The largest is understood to be that of the Union Pacific, which measures about \$124,000,000. Just when this huge Burlington surplus will be distributed has often been the subject of speculative discussion and several times its early distribution was hit upon as explaining sharp and not easily explainable upturns in the prices of Northern Pacific and Great Northern stocks. But apart from the prospects for or against its early partial or full distribution, this potential melon, whose present distribution would amount to \$94.73 a share on the outstanding Great Northern and Northern Pacific stocks, may be regarded as a most valuable back-log should either of the owning roads ever be seriously pushed to maintain present dividend rates.

A Brief Summing Up

To summarize briefly, it may be said, that there is no apparent reason for the impression that has crept into some quarters that the Hill roads have not as bright

TABLE IV

TOTAL OUTSTANDING CAPITALIZATION OF THE HILL ROADS AS OF JUNE 30, 1916.

	Stock	Funded Debt	Total
Great Northern	\$249,476,850	\$143,275,758	\$392,752,608
Northern Pacific	248,000,000	313,535,500	561,535,500
Burlington	110,839,100	179,858,500	290,697,600

cording excellent gains in earnings, was one of the bones of contention between Hill and Harriman. The contest which centered about it and which involved the memorable fight for control of the Northern Pacific which culminated on May 9, 1901, when the shares of the latter were quoted as high as \$1,000 on the stock exchange, forms one of the most exciting chapters in American railroad history and it is still so well remembered, doubtless, that its recitation here may be dispensed with.

Great Northern and Northern Pacific, at the present time, own jointly \$107,613,500 out of Burlington's \$110,839,000 capital stock. This stock is pledged to secure the joint 4 per cent. bonds of these companies. Burlington, today, possesses the second largest melon ripening in the railroad field. It amounts to some \$105,000,000 of undistributed treasury surplus.

a future as they had when the "Old Man" was on board and that efficiency is now just as much a watchword as it ever was on each of the three systems.

The outstanding stock issues of the Great Northern and Northern Pacific are selling currently on a basis where the yield is between 6.1 and 6.2 per cent. on the investment or on about the same bases as many industrial preferred issues with none too good dividend records. In this aspect there certainly appears to be something wrong to bring about such values. But whatever it is, whether liquidation from abroad, adverse legislation, prospects of more labor troubles or still higher taxes and cost of materials or all of these and other causes, it certainly does not appear that the explanation is to be found in retrogression in the railroad properties themselves or their managements.



Cane Crushing in Cuba

Future of Sugar Producing Companies

What War Has Done for the Sugar Companies—Four Prominent Concerns—Position of the Sugar Stocks and How the Investor Should Regard Them

By A. U. ROSENTHAL

WHILE representing an important commodity, Sugar stocks formerly played a more or less minor part in our industrial program. Once every four years they would take the center of the stage; when discussion of the tariff was in order. Investors hardly gave the sugar companies more than a passing glance as an investment proposition. In fact these companies were a thorn in the side of the investment world. Holders of the stocks were continually "up-in-the-air" as to the next move affecting their interests by the legislative bodies.

Leaders in nearly all branches of industrial activity, we (that is the United States and Cuba) were not important factors in the sugar industry. Beet sugar was imported from Austria, France and Germany and the American market was always influenced by the foreign quotations. The price of the commodity was kept at a comparatively low level because American sugar interests sold their products at prices based on a parity with the foreign product c. & f. New York. With all these difficulties in the way it is no wonder that investors scrupulously avoided the sugar issues.

The many Aladdin like changes since the outbreak of the war are noticeable in no industry more than the sugar trade. Almost upon the heels of the declaration of war there was a rush to buy the commodity and the prices for cane sugar, beet sugar, for raw and refined, soared to the highest levels of many years. Great Britain, shut off from her customary sources of supply, began buying in huge quantities and her buying was supplemented by purchases from other sources. France made substantial pur-

chases. Norway, Sweden and Denmark, normal customers of Germany, bought heavily here to be sure of their supply and Japan and China entered the market.

This rush of buying came on top of a record crop year and after several years of good crops so that the prosperity to the sugar companies was unheard of. In short, the devastation of the sugar fields in Germany, France and Austria and the cutting off of Russia eliminated the principal competitors of the United States, thus rendering the Western Hemisphere the greatest producer and exporter of raw and refined sugar in the world.

Phenomenal earnings, great activity, rising prices are always a bait. From comparative oblivion the sugar securities have become one of the most popular mediums for speculation. Shrewd investors foresaw the present conditions in the industry and have in all probability "cashed in." The "public" is now nibbling at the bait and generally that is the time to look out. However, the purpose of this article is to discuss a few of these companies and to determine whether or not this is the time to purchase or hold their securities.

Cuba Cane Sugar Corporation

If not the most important sugar company, its shares are certainly most widely distributed and a most popular medium for operations by the speculative element in Wall Street. This company organized only a little over a year ago began business at a most opportune time. The company is a combination of seventeen sugar mills, owing in fee 10,577 caballerias of land, equal to 352,566 acres, and holds under lease (most leases being for a long period) 5,830 caballerias of land.

equal to 194,333 acres, a total of 546,899 acres. In addition to the sugar mills the company owns and operates 458 miles of railway, including complete equipment. The company is capitalized with \$50,000,000 7 per cent. cumulative convertible preferred, par value \$100, all outstanding and 1,000,000 shares common stock of no par value, of which 500,000 shares are outstanding. As the total cost of properties is placed at \$49,000,000, the entire preferred issue represents actual invest-

dividend requirements can be safely earned for some time to come. The common stock, however, is highly speculative. In the first place it is nearly all "water" and the earnings of the company would have to be maintained at a high rate for many years to give it a value of \$45 per share. Intrinsically, Cuba Cane common is not worth its present selling price and under unfavorable conditions may establish itself at materially lower levels. On the other hand, high sugar



Typical Cuban Sugar Mill

ments in properties. Net earnings for the first year, after writing off \$1,250,000 for depreciation, were \$12,179,012. Deducting \$2,327,505, the preferred dividend requirement, a surplus of \$9,851,507 is shown. This would indicate \$24.36 earned on the preferred stock and \$17.36 on the common. Surely an excellent showing, even in these times of abnormal prosperity. Out of these surplus earnings over \$8,000,000 was used to purchase the Stewart Sugar Company. Cuba Cane's production is expected to be increased within two years to 4,800,000 bags. Last year 3,174,168 bags were produced and the 4,000,000 mark is confidently expected to be reached in the current fiscal year.

While the preferred stock is somewhat speculative, owing to the fact that the earning power of the company is not definitely established, it would seem that

prices for two years or more should so build up the company's reserves and greatly strengthen the position of the stock.

Cuban American Sugar

One of the most spectacular performances in a spectacular market was the phenomenal rise in Cuban American common. The rise in this stock was not based upon manipulation but upon real demand and the shares of a company showing such tremendous profits certainly deserved speculative attention. For the year ended September 30, 1916, the company reported \$8,235,113. net earnings as compared with \$5,594,048 in 1915 and \$356,887 in 1913. Earnings on the \$7,893,800 outstanding 7% cumulative preferred were 104.32% in 1916 and 107.66% was shown on the \$10,000,000 common stock. In addition to back

dividends of $5\frac{1}{4}\%$ the preferred received the regular 7% per annum dividend. The common stock received 60% during the year. Dividends at the rate of $2\frac{1}{2}\%$ quarterly were regularly paid, an extra dividend of 10% in cash and a 40% stock dividend. The directors voted a bonus of \$500,000 to employees last summer. The company producing over 9% of the entire raw sugar output of Cuba, owns and controls 332,000 acres of sugar lands, eight sugar factories, two refineries, 336 miles of railroad, telephone lines, electric light plants, cattle farms, stores, etc. The capitalization of the company is comparatively small, only \$10,000,000 preferred and \$10,000,000 common

rise in Cuban American. The justification for the tremendous advance in the stock is seen in the earnings for the year ended September 30, 1916. Net for the year was \$2,505,957 against \$1,677,360 in 1915 and \$379,480 in 1914. In 1916 74.75% was earned on the \$3,739,500 preferred stock and 63.52% on the \$3,977,800 common. The now regular dividend of 20% per annum was paid and in addition 20% in cash and 18% in stock was distributed, making the total distributions during the last fiscal year 58%.

The company's record is an excellent one. The 8% dividend on the preferred has been amply earned for several years and with the exception of one lean year

TABLE I
FUTURE OF SUGAR PRODUCING COMPANIES—INCOME ACCOUNT OF FOUR SUGAR COMPANIES FOR 1916.

	So. Porto Rico	Cuban-American	Guantanamo	Cuba cane
Total income	\$8,396,562	\$9,625,471	\$1,080,559	\$14,729,087
Depreciation	1,181,243	860,828	193,985	1,250,000
Bond interest	16,320	529,530	†	91,386
Net income	2,505,957	8,235,113	\$886,574	12,179,012
% Earned { Preferred	74.75%	104.32%	**32.24%	17.36%
Common	63.52%	107.66%		24.36%
% Paid { Preferred	8%	7%	**12%	†15¼%
Common	40%	*20%		none
Surplus	\$828,690	\$6,255,427	\$556,604	\$9,851,507

*Not including stock dividend of 40%.

†No funded debt.

**One class of stock

††Initial div. declared April 1, 1916.

stock. The common stock should be worth its present selling price for some time to come. The recent decline of over 100 points in this issue has discounted a great deal and favorable developments should be reflected in higher prices for this stock.

A Porto Rico Company

The South Porto Rico Sugar Company, controlling by ownership or lease 35,000 acres of land in Porto Rico and over 38,000 acres of land on the Island of Santo Domingo, is the largest and most prosperous company in that district. The rise in its common stock from the low of \$40 in 1915 to \$240 in 1916 was almost as sensational as the

in 1914, large earnings were shown on the common. The stock at the present writing is off 62 points from its high and looks fairly cheap. The question as to its cheapness depends, of course, upon how long present large earnings will be maintained.

Guantanamo Sugar Company

This is a company that has made good suddenly. Earnings took a jump from 8.58% in 1914 to 41.74% in 1915 and, although earnings were not as large in the last fiscal year, the substantial amount of 32.24% was shown on the capital stock. The company was incorporated in 1905 and dividends were not initiated until 1915. In that year 12% in

cash and 10% in stock was distributed. In 1916 the regular \$6 per share (12%) and an extra dividend of 9% was distributed. The company is capitalized with \$2,997,227 outstanding stock, an authorized issue of \$3,000,000, all of one class. No funded debt. It is one of the largest producers of sugar in Cuba, owning about 55,000 acres of sugar lands in one of the best cane sections of the island. It operates three factories and owns a majority of the capital stock of the Guantanamo Railroad Company.

The directors of this company have pursued the commendable policy of building up the property and strengthening its financial position in the past. Large sums have been charged off against the purchase property valued in its assets at

Cecilia and many others are showing large earnings and are in a very strong position. The situation in the affairs of these companies is comparable to the four fully discussed and the general conditions in the trade will no doubt affect these companies in about the same manner as their competitors.

Taking the broad view, the paramount question is, of course, how long the war will continue. Many take the view that sugar prices will be maintained at high levels for two or three years after the war. They claim that despite increased production there will be increased consumption and that alone should sustain the price for the commodity and the companies should continue to show fabulous earnings.

TABLE III
HIGH AND LOW STOCK PRICE OF FOUR SUGAR PRODUCING COMPANIES—1913 TO DATE.

	1917		1916		1915		1914		1913	
	H	L	H	L	H	L	H	L	H	L
South Porto Rico, Pfd.	114½	114	120	103	110	75	...	...	110	102
do. Com.	181	165	240	146	164	40	...	...	70	70
Cuban Amer. Pfd.	102	101½	110	104½	110	93	90	90	90	88
do. Com.	194	159	169½	152	177	38	...	...	...	...
Guantanamo	...	...	86	56	71	50	...	...	...	...
Cuba Cane, Pfd.	94½	85½	100½	91½	...	...	...	...	...	...
do. Com.	55½	35½	76½	43	...	...	...	...	...	...

nearly \$8,000,000. The total cost of the properties is placed at \$3,937,538, while they could hardly be replaced for double the amount. In short it is estimated that each share is backed by more than double the amount in property value. This stock is one of the best in the sugar group. The company is in a strong financial condition, under good management and carries substantial depreciation reserves. A favorable market for the sugar shares should see this stock at higher figures.

Position of Sugar Stocks

Nearly all the other sugar producing companies, large and small, have shared in the unprecedented prosperity in that industry. Limited space, however, will not allow a detailed discussion of each. Central Aguirre, Fajardo, Manati, Santa

This view should be regarded with skepticism. It is true that it will take some time before foreign competition will be a serious factor, even should peace be declared at an early date, but it must be borne in mind that the market price of a stock is usually based on future prospects. The sugar stocks then, are in a speculative position. A continuation of the war for a year or two may bring about another boom in these issues, but an early cessation of hostilities should result in lower prices. It all depends upon the duration of the war. In short the stocks of these companies, although excellent mediums for speculation, speculation on the duration of the war, do not belong in the conservative investment class at the present time.



Railroad and Industrial Digest

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Market commitments should not be made without further corroboration.—*Editor.*

RAILROADS

Adams Express declared a dividend of \$1.50 a share out of net earnings from the express business and net revenue from investments, payable March 1.

Atlantic Gulf & West Indies.—Net profits in December dropped from \$859,000 in the previous month to about \$350,000, due to the payment of bonuses to employees and the setting aside of a repair fund of \$433,000.

Baltimore & Ohio.—Has been granted a decree overruling the opinion of the Interstate Commerce Commission regarding the contract for an exchange of service between it and the Western Union Telegraph Co. The commission's decision, which was overruled, declared the contract was contrary to law because some of the services rendered were off the companies' lines.

Bangor & Aroostook R. R.—Surplus after charges in December was \$77,478, compared with \$24,969 in 1915, and 6 months' surplus after charges was \$221,450, compared with a deficit of \$33,931 in 1915.

Boston & Maine.—Report for quarter ended Dec. 31, 1916, as filed with Public Service Commission of Massachusetts, showed net income of \$1,039,331, an increase of \$959,519.

Chesapeake & Ohio.—For the year ending Dec. 31, 1916, reports net income available for dividends of \$7,666,882, as compared with \$5,092,021 in 1915 and \$2,663,537 in 1914. The figures for 1915 and 1916 are for the calendar years ending Dec. 31, and the figures for 1913 for the fiscal year ending Dec. 30. The company has changed its fiscal year from June 30 to Dec. 31. The company has completed plans for development of a locomotive fuel supply from its own land. The company's needs run from 6,500 to 8,000 tons daily, and the development of mines to produce that much would require an investment of perhaps \$2,000,000. It is pointed out that Chesapeake & Ohio should benefit in the event of war because of extensive preparations on account of the Government naval stations at Newport News and Norfolk, Va. The road enters both these centers.

Chicago & Alton.—For December reports an increase in net of \$35,770.

Chicago & Northwestern.—For December reports an increase in net of \$256,057.

Colorado & Southern.—Filed in the Supreme Court a suit to restrain the reorganization committee of the Chicago, Rock Isl-

and & Pacific Ry. Co. from carrying its new plan into effect until it had made provision for the payment of a claim of \$5,980,485, alleged to be due in connection with the construction of the Brazos Line in Texas, in which the two railroads were partners. An application for a temporary injunction in the case is expected to follow.

Delaware, Lackawanna & Western.—In 1916 showed record gross earnings of \$51,580,899, an increase of \$6,800,000 over 1915. The surplus was \$7,756,068, an increase of \$5,237,000 over 1915 and the balance for dividends was equal to 38.31% on the \$42,277,000 stock, as against 25.93% in 1915. The company's balance sheet as of Dec. 31 shows a profit and loss surplus of \$46,987,405, as compared with \$39,231,337 at the close of 1915. President Truesdale stated in the annual report that earnings from the transportation of coal increased \$1,111,237 notwithstanding that the rate of freight on anthracite coal from the mines to many points was reduced by the Interstate Commerce Commission effective April 1, 1916. The tonnage of coal produced was larger than in any year in the history of the company, aggregating 9,428,462 tons, an increase of 663,205. The road enjoyed an increase of 22% in express earnings during the year as a result of the shipping of large amounts of commodities by express that would otherwise have gone by freight except for the urgency of the demand.

Denver & Rio Grande.—Reports December net after taxes of \$770,709, against \$801,466 in 1915. For six months the net was \$5,396,792, as compared with \$4,992,724 in 1915.

Erie.—For December gross decreased \$271,867 and net decreased \$945,274. For 6 months gross increased \$860,650, while net decreased \$4,531,537.

Kansas City Southern.—Reports January gross of \$1,072,958, against \$778,445 in 1916 and net after taxes of \$380,114, against \$201,187. Seven months' net was \$2,583,659, against \$2,138,601 in 1916.

Lehigh Valley.—December net decreased \$203,381 and 6 months' net decreased \$294,936. The company has adopted plans calling for extensive development during 1917, involving the expenditure of more than \$5,000,000, which will make \$11,000,000 expended in 1916 and 1917. It is expected that the work to be undertaken will enable the road to handle a maximum tonnage at a

minimum cost and provide for terminal requirements for many years.

Louisville & Nashville.—Reports December net after taxes of \$2,042,262, against \$1,576,112 and 6 months' net after taxes of \$10,844,046, against \$8,670,096 in 1915.

Missouri, Kansas & Texas.—According to expert reports of J. W. Kendrick of Chicago needs \$55,000,000 new funds and \$10,000,000 for additional improvements in an eight-year program to go into operating expenses. He endorses the budget of capital expenditures prepared by Receiver Schaff, and estimates the income account for 1920 will show \$3,000,000 surplus. Mr. Kendrick declares that as a result of such an expenditure as he recommends the company could ultimately save \$4,500,000 annually through an increased efficiency and physical improvement. Probably not more than \$10,000,000 can be expended advantageously during the next two years, he says, and adds that certain economies in operation cannot be realized for some time, but estimates that the net saving for the year 1920 should be \$1,420,000. The railroad expert criticizes the past management of the road, declaring that it was inevitable that a time would arrive when it would be necessary to make the expenditures required for modernizing the road. Bridges are much too light for modern requirements, the road has no engine terminals worthy of the name, south of and a few north of the Red River, previous administration utterly failed to recognize the coming changes in transportation methods and \$4,160,000 distributed to stockholders as dividends during the period beginning 1906 and ending 1914 should have been returned to the property in the form of "well concealed improvements," according to the report.

New Haven.—Official statement concerning early maturing obligations of May 1 says: "Company has every reason to believe that \$25,000,000 of its direct obligation and the \$18,000,000 remaining of the New England Navigation Company's notes in the hands of the public, both of which are due May 1, 1917, will be paid or refunded at or before maturity.

New York Central.—Directors have decided to offer to stockholders who have already subscribed and paid for the new stock the privilege of withdrawing their subscriptions and having their funds returned to them. The company does not, however, withdraw the offering of the \$25,000,000 of new stock at par. The action was prompted by the fact that the stock sold below par before the rights to the subscription offer expired.

Pacific Mail.—Earned last year 83% on its investment of \$1,030,000 in the operation of its Panama fleet of steamers. This compares with 30% earned in the previous year on the same investment. Despite increase in earnings from Panama service, net income for the year amounted to only \$825,970, compared with \$1,380,602 in 1915, the decrease being due to the temporary abandonment of the company's trans-Pacific service, following the sale to International Mercantile Marine Co. of steamships. The service was resumed when the Pacific Mail purchased the *Venezuela*, *Colombia* and *Ecuador*. The sum of \$453,339 was appropriated from income to be applied to extraordinary depreciation of steamers.

Rock Island.—For December showed a gross increase of \$593,460 and a net increase of \$352,641, while for six months gross increased \$5,294,634 and net increased \$4,588,020.

Southern Railway.—Has abandoned its plan to sell long term bonds to provide for \$15,000,000 of maturing notes and additional working capital, owing to the poor demand at present for long term bonds. A short term loan of \$25,000,000 has been concluded. Proceeds will be used to take up \$5,000,000 of notes which matured February 1 and \$10,000,000 of notes to mature March 1.

St. Louis, Iron Mountain & Southern.—For December gross increased \$656,515 and net \$451,656. For six months gross increased \$3,705,688 and net increased \$2,232,007.

St. Louis & San Francisco Railway.—Result for six months ended December 31, 1916, were highly satisfactory.

Industrial Digest

American Glue.—Earned a balance for dividends in 1916 of \$664,887, an increase of \$416,357 over the previous year.

American Woolen Company.—Directors, it is understood, will recommend that the 1¼% quarterly dividend be designated as a regular quarterly rate.

Atlantic Steel.—Reports January earnings of \$114,550, compared with \$59,749 earned in January, 1916.

Atlas Power.—Reports gross sales for the year ended December 31, 1916, of \$20,652,916, as compared with \$9,289,492 for 1915. The net balance for common dividends was \$2,551,084, as compared with \$1,492,602 in 1915. Amount earned on \$5,002,400 was equal to 50.99%, as compared with 35.80% earned on \$4,168,700 common stock in 1915.

Baldwin Locomotive.—For 1916 reports

gross sales of \$59,219,058, compared with only \$22,083,011 in 1915. Balance after preferred dividends and special deduction was \$6,825,176 against _____ in 1915. The equivalent in percentage earned on the stock was 6.1% in 1916 and 7.1% in 1915. The manufacturing profits of the company were slightly more than 10% of gross. Despite the fulfillment of large war contracts, the balance sheet shows total assets of \$79,479,892, an increase of over \$18,000,000. Of the year's gross business \$33,605,024 was from locomotives and other regular work and \$25,614,033 from shell contracts and other special work, according to President Johnson.

Barrett Company.—See Colorado Fuel item.

Baltimore Tube.—Reports for 11 months ending December 31, 1916, net profits, after deduction of miscellaneous taxes, depreciation, etc., and reserves, of \$663,324.

Bethlehem Steel.—According to C. M. Schwab, will not create a new bond issue for a long time to come. The company has already announced issuance of \$50,000,000 2-year notes.

Central Leather.—Is understood to have closed its fiscal year, 1916, with a large cash balance, believed to have been close to \$15,000,000 or better than \$35 a share on the common stock.

Chandler Motor Car.—Reported the net profit for 1916 of \$1,716,166 available for dividends of \$700,000, equal to \$24.51 per share of stock. President Chandler states that orders on hand for delivery of cars during 1917 are 50% greater than the entire 1916 production.

Charcoal Iron Company of America.—Reports net profits for the year ended December 31, 1916, of \$331,091; total surplus, \$1,254,537; dividends paid, additional income tax and other charges, \$241,185; net surplus, \$1,013,352.

Colorado Fuel & Iron.—Has signed a contract for a term of several years with the Barrett Company, whereby the latter will take over and market the Steel concern's coke by-products. Colorado Fuel has also closed a contract for the erection of a benzol plant in connection with its coke oven.

Cramp Ship Building.—Control has been acquired by a group of New York bankers. Wharton Steel Company has passed to interests who are also largely identified with the Cramp company, and this has given rise to reports of a ship building merger to include a steel company, but such reports lack confirmation.

Driggs-Seabury.—Will not furnish guns to American ships for defensive purposes, according to an official announcement, because the company's contract is such that

it will be unable to make the guns desired.

Du Pont Powder.—In 1916 earned a balance of \$78,459,471, as compared with \$55,542,275 in 1915. The amount was equal to 133.31% on \$58,854,200 common stock, compared with 94.3% earned on the same stock in 1915.

Edmond & Jones Corporation.—First annual report for year ended December 31, 1916, showed net profit of \$461,927. After preferred dividends there remained a balance of \$510,302, equivalent to \$12.76 a share on the 40,000 shares of common stock outstanding. Regarding new orders, President Edmond stated: "We have just received an order for 1,250,000 lamps. This places us with about \$2,500,000 worth of business on our books at the present moment, and it is going to make the company hustle to get this business out."

Gaston, Williams & Wigmore.—Unfilled orders as of February 15 were \$6,826,036, an increase from January 15 of \$119,678. Of January shipments profits were \$395,917.

General Electric.—Gross sales for 1916 are understood to have been \$117,000,000 exclusive of munitions orders of between \$25,000,000 and \$30,000,000. Increase in regular business over 1915 was approximately \$32,000,000, or 37%.

General Motors.—Both old common and preferred stock have been practically all changed for stock in the new Delaware corporation, and this is expected to remove any further difficulty in the establishing of a higher dividend rate which it is believed may be at least 1½% quarterly. The company is stated to be earning at least five times a 6% per annum rate.

Gulf States Steel.—Declared the regular quarterly dividend of 2% on the common stock, payable April 2, and also declared a dividend of 7% on the 1st preferred stock, payable in four quarterly installments of 1¾%, and a dividend of \$6 a share on the 2d preferred stock, payable in quarterly installments of \$1.50 a share.

International Paper.—Annual statement soon to be issued will show, it is said, net quick assets of \$15,000,000 in round figures, a record amount. It is stated that the success of the readjustment plan seems already assured.

Jewel Tea.—Reports sales for four weeks ending January 27, 1917, of \$1,161,951, an increase of \$364,703 over 1916.

Lackawanna Steel.—Earned in 1916 a balance for dividends after depreciation, etc., of \$12,218,234, as compared with \$2,409,109 in 1915 and a deficit in 1914. These earnings were equal to 74.81% on \$35,096,500 common stock outstanding, compared with 20.66% earned on \$34,763,400 common stock in 1915.

Mathieson Alkali Works.—\$5,885,700 common stock temporary interchangeable certificates have been listed on the New York Stock Exchange.

Maxwell Motor.—Declared regular quarterly dividend of $2\frac{1}{2}\%$ on the common stock, payable April 2.

Mitchell Motors.—Income for the year 1916 amounted to \$1,188,398, equal to \$9.50 a share.

National Biscuit.—For the year ended January 31, 1917, earned a net balance for the common stock after preferred dividends of \$2,842,991, equal to 9.72% on the \$29,236,000 common stock, compared with 8.18% earned on the same stock in the previous year.

National Enameling & Stamping.—Has declared an initial dividend of 4% on the common stock for the year 1917, 2% payable May 15 and 2% payable November 15. The company reports for 1916 net earnings available for dividends equal to a little over $11\frac{1}{2}\%$ on the stock as compared with 3% earned in 1915.

National Lead.—Officials state that it is the expectation that the company will show earnings for the year 1916 of substantially the same as were shown in 1915 when 4.86% was earned on the common stock.

New York Air Brake.—Reports net profits for 1916 of \$8,214,952, equal to \$82.15 a share after all charges and depreciation reserve of \$1,200,000, compared with \$13.43 earned in 1915. The gross business was over five times that of 1915. The amount of cash on hand on December 31 was \$4,858,319, equivalent to \$48.58 a share on the stock. President Starbuck, referring to the fact that a large proportion of the profits were traceable to munitions business, said that the company's regular brake business had not only more than doubled during the year, but the orders on hand amounted to five times those of any previous year, indicating that the brake business of the company will be still more favorable, while at the same time munitions will continue to be profitable for some time to come.

Pittsburgh Plate Glass.—In 1916 showed a balance for dividends of \$5,952,231, or 26.33%, as compared with \$1,641,237 in 1915.

Pressed Steel Car.—Gross sales in 1916 were \$31,202,646, as compared with \$7,492,621 in 1915. The balance for dividends was \$1,876,152, equal to 15.01% on the stock, as compared with \$449,815, or 3.59% in 1915.

Republic Iron & Steel.—On and after April 1, will issue quarterly income statements and annual reports instead of the semi-annual reports as heretofore published.

Stutz Motor.—For seven months ended December 31, 1916, reports net profits of \$381,061, equivalent to \$5.08 a share on the

stock. President Stutz said: "Output was 42% more than in the preceding year. The entire expected maximum output of cars for 1917 has been contracted for. It is expected that the net profits for this year will be considerably in excess of those for 1916."

Submarine Boat.—Said to have earned not less than \$10,000,000, or over \$12 a share, last year, although these earnings did not show up on the statement of the Electric Boat Co., its subsidiary, which showed a balance after depreciation of only \$6,479,449, equal to \$8.40 a share on the Submarine company's outstanding stock. Predicted that one of the first steps of the company's new directors will be to reduce the dividend in April to either a \$3 or \$4 a share, annual rate.

Tobacco Products.—Statement of earnings for 12 months ended September 30, as outlined in application to Stock Exchange for the listing of \$200,000 additional preferred stock, probably does not reflect the full earning power of the company, for it is customary for the management to wait until the close of the year before calling in dividends from subsidiary concerns. The statement showed net of \$813,325.

Underwood Typewriter.—Reports for year ended December 31, 1916, a gain of more than \$1,000,000 in net earnings and a surplus account that was increased by \$1,401,000, after paying dividends and a bonus to employees aggregating \$978,000.

United States Rubber.—Stockholders at special meeting voted to adopt recommendations of Board of Directors of proposal to issue bonds to the extent of \$97,252,000 in such amounts "as may be needful" and also to acquire full possession of various plants now partly owned by the company. The company has already put out \$60,000,000 of the bonds authorized.

United States Steamship Co.—Has chartered to Sunderland, of Cardiff, England, their steamship *McCullough* for a period of one year at \$30,000 a month.

Winchester Arms.—Despite the fact that its gross earnings in 1916 were probably the largest in the history of the company, \$26,441,074, compared with \$20,309,085 in 1915, failed to pay any dividend on its stock out of the surplus of \$1,627,779. The company made a deduction of \$1,617,216 for special amortization of plant and sundry items, so that the actual increase in surplus was about \$10,000,000, or \$1 a share on the stock. Profits on the company's war orders were reduced by mounting costs of raw materials, working capital requirements to finance new buildings and unprecedented amount of material, stringent requirements of foreign governments on rifles, and high labor costs. The latter item alone was \$2,000,000 greater than in the previous year.

Bargain Indicator Showing Comparative Earnings

NOTE.—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvements of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. A poor stock may sometimes stand up well in this table because its price is low compared with latest available earnings.

Industrials	Dividend Yield	Present Div. Rate	Present Price	Dollars Earned Per Share										Present Price	Earnings Last Year on Present Price	Earnings Year on Present Price	INTENDING PURCHASERS should read all this carefully and consult an Investment Digest. We gladly answer all inquiries of yearly sub- scribers.
				1910	1911	1912	1913	1914	1915	1916	1917	1918	1919				
New York Air Brake.....	\$10	6.80%	4.48	0.48	5.72	6.55	6.41	13.43	94.15	147	64.04%	147	64.04%	Extra 2½% each quarter—tremendous business.		
Bethlehem Steel Co.....	*10	7.70	6.45	6.69	6.58	27.45	32.59	112.49	82.25*	130*	63.26*	130*	63.26*	50 million dollar note offering.		
Maxwell Motors com.....	10	17.86	.....	.....	.....	.....	0.30	6.55	30.18	56	53.81	56	53.81	Large production planned for 1917.		
American Locomotive com.....	5	7.04	1.34	7.26	0.47	17.74	1.30	.....	36.08	71	50.81	71	50.81	Plant improvements—recent change management.		
Crucible Steel pfd.....	7	6.25	14.47	10.23	13.70	19.62	4.06	12.29	52.89	112	47.22	112	47.22	New plants—U. S. Gov't shell orders.		
United States Steel com.....	5	4.63	12.23	5.92	5.71	11.02	.....	9.96	48.48	108	44.88	108	44.88	Extra 1½% Gov't files brief in Supreme Court to dissolve company.		
Nat. Enamel. & Stamp. com...	4	12.12	0.99	1.09	.....	1.05	.....	2.02	13.60	33	41.21	33	41.21	Record business and earnings.		
Dietrich's Securities	6	24.00	2.40	2.95	1.62	1.17	2.28	4.64	10.30	25	41.20	25	41.20	War orders. Prohibition wave adverse effect.		
Central Leather com.....	5	3.81	.....	.....	8.38	5.18	6.41	10.82	33.14	86	38.53	86	38.53	Extra dividend of 2% declared.		
General Chemical com.....	8	3.20	19.52	19.77	21.72	19.19	18.73	44.27	86.76	250	34.70	250	34.70	Running at capacity—large extra dividends.		
Am. Smelt. & Ref. com.....	6	6.00	7.09	10.90	11.47	7.47	6.51	16.80	32.52	100	32.52	100	32.52	Extra dividends and capacity business.		
Am. Steel Foundries.....	5	8.06	.....	6.	.....	4.53	6.01	.....	19.89	62	32.08	62	32.08	Irregular dividends in past. 1917 earnings start at \$14 a share.		
U. S. Ind. Alcohol com.....	7	5.42	2.00	4.00	5.00	1.89	1.90	12.60	36.5	129	27.90	129	27.90	Stock dividend possible.		
Ray Con. Copper Co., \$10.....	3	11.11	.....	0.25	1.33	1.85	1.65	3.08	7.14	27	26.44	27	26.44	Extra dividends, good prices and large orders.		
Chico Copper Co., par \$5.....	6	10.71	.....	0.17	2.80	3.51	3.44	7.67	14.76	56	26.35	56	26.35	Extra dividends. Earnings on increase.		
Virginia Car Chem. com.....	3	7.31	10.42	3.11	3.28	0.53	3.39	7.55	10.39	41	25.34	41	25.34	Outlook better—prices for product higher.		
Miami Copper Co.....	6	16.21	.....	0.74	2.81	1.75	1.65	4.56	9.36	37	25.30	37	25.30	Extra dividends.		
Continental Can com.....	5	5.49	.....	.....	.....	12.10	4.69	12.10	22.38	91	24.59	91	24.59	Reports for 1917 outlook better than 1916.		
Int. Agr. Chem. pfd.....	0	0.00	10.05	11.39	11.22	.....	0.65	.....	9.80	40	24.50	40	24.50	Very large fertilizer trade in the South.		
U. S. Realty & Imp. com.....	0	0.00	9.68	9.36	8.27	9.16	8.18	5.	3.72	16	23.25	16	23.25	Subway contracts—suffered from labor question.		
Am. Agr. Chem. com.....	5	5.55	10.42	9.05	7.34	5.23	7.68	10.97	20.57	90	22.85	90	22.85	With other chemical stocks doing record business.		
Utah Copper Co., \$10.....	10	9.09	3.46	3.96	5.35	5.38	5.34	11.03	24.50	110	22.27	110	22.27	Extra dividends; can expect record earnings.		
Westinghouse Elec. com., \$50.	3.50	7.	3.75	6.05	3.02	4.10	5.35	2.31	10.21	50	20.42	50	20.42	Very heavy orders booked for 1917.	
Am. Hide & L. pfd.....	5	7.81	.....	0.80	3.22	3.66	0.83	7.38	12.64	64	19.75	64	19.75	Excellent earnings—dividends irregular.		
Pressed Steel Car com.....	7	9.09	5.55	0.14	0.76	10.56	0.14	3.60	15.00	77	19.47	77	19.47	Increase due to war orders.		
Am. Linsed pfd.....	3	5.88	4.30	2.59	.....	2.96	1.83	6.02	8.82	51	17.29	51	17.29	Earnings continue good.		
Int. Nickel com., \$25.....	6	14.64	4.32	7.75	5.89	4.35	2.80	3.33	6.83	41	16.65	41	16.65	1917 earnings on a par with 1916.		
Am. Beet Sugar com.....	8	9.09	7.11	6.60	8.46	3.87	1.01	7.50	14.30	88	16.25	88	16.25	Running full capacity. 12% extra March 1.		
Am. Cot. Oil com.....	4	9.09	6.78	.....	6.49	3.38	1.99	7.05	6.99	44	15.88	44	15.88	Labor and material cost prevent big profits.		

Col. Fuel & Iron com.....	0	0.00	3.93	3.21	4.79	4.58	.....	5.97	47	12.91	Labor troubles over, but transportation troubles.	
Sears Roebuck com.....	7	3.14	20.47	15.96	21.17	21.30	17.57	26.55	223	11.90	New stock dividend.	
Halwin Leco, com.....	0	0.00	.....	.....	11.49	13.09	.....	7.14	6.10	5.3	Trouble with munition orders.	
Am. Can pfd.....	7	6.54	6.85	7.07	15.86	9.66	10.61	12.19	12.31	107	11.49	{ Earnings good; accumulated dividends leave 3% for common.
Am. Can pfd.....	7	6.54	6.85	7.07	15.86	9.66	10.61	12.19	12.31	107	11.49	{ Earnings good; accumulated dividends leave 3% for common.
Woolworth, F. W., com.....	8	5.62	.....	.....	8.73	10.82	10.46	13.19	15.37	142	10.96	Record business—expanding.
Am. Malt pfd.....	4	7.84	1.68	5.29	5.61	2.79	2.29	0.08	4.54	51	8.90	Readjustment plan declared.
Nat. Biscuit Co. com.....	7	6.03	7.86	10.00	9.61	11.75	9.52	8.19	11.16	116	7.96	Has large surplus in treasury, 1917 business better.
Pullman Co.	8	5.00	13.93	9.28	8.69	9.29	9.04	8.79	10.32	160	6.45	Earnings about same as 1916 thus far.
Am. Car & Fdy. com.....	4	6.25	6.63	7.11	2.46	4.09	5.52	0.76	2.38†	64	3.72	{ Extra 1% declared—earnings quoted first part of 1916.
Int. Mer. Mar. pfd.....	0	0.00	8.27	8.15	7.32	4.44	.....	26.26	.....	70	37.51	Affected by recent U-boat crisis.
Willis-Overland Co. com., \$25.	3	9.09	.....	.....	4.61	4.33	11.34*	.....	.....	33	34.36	Ready for large 1917 business.
B. F. Goodrich com.....	4	7.01	.....	.....	13.34	0.83	5.62	17.17	.....	57	30.12	Advance in tire prices—expected falling off in earnings.
Studebaker com.....	10	9.70	.....	.....	4.89	3.11	12.71	27.49	.....	102	26.95	Transportation troubles—well booked for orders.
U. S. Rubber com.....	0	0.00	10.24	2.19	6.00	12.19	9.18	19.80	.....	54	20.00	New bond issue to merge other companies.
Barrett & Co. com.....	7	5.30	.....	11.66	11.11	15.61	10.31	21.19	.....	120	17.63	Recent extra stock dividend.
California Pet. pfd.....	4	7.34	.....	.....	.....	11.69	11.49	7.80	.....	53	14.71	Better oil prices.
Am. Woolen com.....	5	10.64	2.23	2.12	2.01	.....	.....	6.40	.....	47	13.61	{ Withdraws fall lines—probable U. S. Gov't orders.
Corn Prod. pfd.....	7	6.86	7.00	7.10	6.89	7.69	7.70	10.59	.....	102	10.38	{ Est. 7.8% on com. stk. after pfd. 7% is paid for 1916.
Am. Tobacco com.....	20	9.90	86.30	64.40	30.39	28.11	21.00	20.10	.....	209	9.61	1916 predicted earnings about 23% on stock.
Anaconda Copper, \$50.....	8	10.12	1.32	1.85	3.65	2.61	1.88	7.16	.....	79	9.06	Dividends may be increased after notes retired.
Nat. Lead com.....	4	6.89	4.32	3.59	3.81	3.64	3.73	4.86	.....	88	8.37	Extra dividend of 1 1/4% announced—unfilled orders large.
Allis Chalmers pfd.....	6	7.31	.....	.....	.....	4.77	.....	6.80	.....	82	8.29	Extra dividends.
Butte & Superior, \$10.....	5	10.64	.....	.....	.....	3.47	5.21	33.37	.....	47	7.10	Record business.
General Elec. Co.....	8	4.87	16.69	14.57	16.19	12.88	11.12	11.57	.....	164	7.05	Record business booked.
Railway Steel Spring com.....	5	10.20	6.00	0.18	5.77	1.31	.....	3.09	.....	49	6.30	1% extra declared.
Diamond Match Co.....	8	6.55	11.56	12.65	13.19	11.04	9.59	7.46	.....	122	6.11	Mexican political uncertainties.
Mexican Petroleum com.....	0	0.00	.....	4.89	5.90	11.58	4.68	5.09	.....	89	5.71	Benefiting from coal prices—U. S. Steel Co. orders.
Pittsburgh Coal pfd.....	5	4.58	7.26	5.14	7.48	10.07	5.06	6.11	.....	109	5.60	Large balance of assets in company's history—50% increase over 1915.
Int. Paper pfd.....	6	6.18	4.54	4.61	85.35	4.44	5.08	5.44	.....	97	5.60	Gov't brief filed in dissolution suit.
Int. Harvester Corp. com.....	0	0.00	.....	.....	.....	12.88	5.41	4.30	.....	80	5.35	Wins suit in N. Y. State for East River water rights—business very good.
Am. Sug. Ref. com.....	7	6.14	3.98	15.61	5.23	.....	2.90	4.99	.....	114	4.37	Large earnings.
Greene-Cananea Cop. Co.....	8	19.04	.....	.....	4.31	2.33	1.97	1.04	.....	42	2.47	{ Extra dividend of 2% quarterly for 1917—possible dates not set.
U. S. Cast Iron Pipe pfd.....	5	8.62	4.35	3.88	5.69	4.50	.....	10.60	.....	58	1.03	{ Said to have earned 20% on common stock 1916 unofficial.
Sloss-Sheffield, com.....	6	9.52	2.02	.....	0.84	2.09	0.21	0.53	.....	63	0.84	

Figures of earnings on price and dividend rate which are based on 1915 earnings reflect the 1916 earnings at time of going to press. All figures below black line based on 1915 earnings—1916 earnings not announced at time of going to press.

† Fiscal year changed to December 31.

‡ Six months ended December 31.

§ For nine months ending December 31.

* Reduced to \$25 par value.

• Capital quadrupled.

‡ Year ended April 30, 1916.

§ Includes earnings Cuba Distilleries Co.—not included previous years.

Railroad and Industrial Inquiries

N. Y., Chicago & St. Louis

M. V., Chattanooga, Tenn.—New York, Chicago & St. Louis sold from a low of 33 to a high of 45 $\frac{1}{4}$ last year. Its range in 1915 was 41 low, 45 high; in 1914, 35 low, 45 high, and in 1913, 47 low, 63 $\frac{1}{4}$ high. The last dividend payment on the common stock was 4% on March 1, 1913. Earnings in 1912 were equal to 7.01% on the common stock, but in 1913 they dropped to 0.20%, while a deficit was shown in 1914 and only .07% was earned in 1915. The estimated earnings for 1916, based on eleven months results, are 6.80%.

It appears that the prospects of the stock have been overestimated, especially now since net earnings are showing a decline, as compared with last year. This decline is due to the fact that material and labor costs have risen, so as to greatly increase expenses of operation and furthermore, the road is putting back a large proportion of its surplus earnings for maintenance, etc., now while times are good.

The company has laid out a program of expenditures, including a new terminal at Cleveland, the addition of rolling stock equipment, etc., and the building of bridges and reconstruction of road bed.

There is not a very bright prospect for the resumption of dividends on the common stock and you should do well to liquidate your holdings even though it shows you a loss.

N. Y., Ontario & Western

G. R. L., New York City.—New York, Ontario & Western has possibilities as a long pull proposition, but we do not particularly favor the stock. This company has never shown very impressive earning power, and although at one time it paid dividends of 2%, it was unable to maintain them. The company has benefited from increased traffic and high coal prices through its interest in coal properties, but the conditions of prosperity must be regarded as abnormal and in the next period of depression which is bound to come sooner or later, we look for a decline in earnings.

Reading

W. V. A., Battle Creek, Mich.—Reading is probably just now in a less favorable position than the other railroad stocks you hold because Reading in its rise to 115 was the object of very heavy speculative buying and there was every indication that insiders were unloading the stock. The rise, as you doubtless know, was accompanied by all sorts of rumors about the value of the company's coal properties and probability of a distribution of assets to stockholders. Such rumors concerning Reading are familiar, but they can always be effectively used in bull markets and are resorted to, if precedent may be taken as any criterion, simply to allow insiders to profit. We therefore especially recommend that you protect this stock with a stop order. Do not understand us to mean that Reading has no great

potential or intrinsic value on account of its valuable assets, but technical market position of the stock is the important influence to consider now.

Southern Pacific

R. E., East Orange, N. J.—Southern Pacific is undoubtedly selling at a comparatively low valuation. This stock is in a very strong position since the company is earning its dividend by a wide margin; in fact, earnings are running almost double dividend requirements. Taking a long range view, we are inclined to be optimistic as to the future of Southern Pacific, although we would not be surprised to see the stock sell lower in the immediate future on unfavorable news. Since your investment shows you a good return and may be regarded safe as to principal and income, it would probably be inadvisable to you to sell at a loss.

American Cotton Oil

M. B., Dalton, N. Y.—American Cotton Oil is selling comparatively low and while the stock may go lower in the event of a more serious turn in the foreign situation, it would probably be inadvisable for you to take such a large loss as the commitment now shows you. We are inclined to the opinion that unless extraordinary developments intervene, that the company will be able to maintain its 4% dividend even through a period of depression which may follow the war.

Last year it earned about 7% on the stock, as compared with about the same percentage the previous year. If you are willing, therefore, to hold it simply for the income in the expectation that eventually you will be able to sell it out at a profit, we suggest that you keep it.

The decline in the stock was not due to any unfavorable news regarding the company itself, but was simply the result of the general break in the market and the readjustment of prices to new outside conditions.

American Hide & Leather

B. P., Clarkdale, Arizona.—American Hide & Leather (Pfd.), for the quarter ended December 31, 1916, showed net earnings of \$1,235,337 compared with \$276,067 for the quarter ended September 30. After the payment of fixed and other charges, the surplus remaining applicable to dividends for the first six months of the current fiscal year was equal to 10.47% on the preferred stock, as compared with 6.38% for the same period in 1915. This was at the annual rate of 20.94% on the preferred as compared with 12.64% actually earned last year, 7.38% in 1915, 0.83% in 1914, 3.66% in 1913 and 3.22% in 1912.

The company's greatly strengthened financial position has been due to an extraordinary period of prosperity resulting from conditions brought about by the war. The fact that the

company paid no dividends on its preferred stock in the period from 1905 to 1916, during which there was added to accumulated dividends an amount equal to over 100% on the preferred stock, sufficiently indicates the very poor earning power of the company under normal conditions. Whether or not the current prosperity will continue long enough to warrant the expectation that the preferred stock may be established as a permanent dividend payer, remains to be seen. It was recently stated that there is as yet no thought of putting the stock on a regular 7% per annum basis to which it is entitled. Dividends are now being paid at irregular dates, the initial payment being 5% on September 1, 1916, followed by a payment of 2½% on February 15. This last payment reduces the accumulated dividend to 115¼%. The policy of paying dividends from time to time on account of accumulation will probably be pursued and eventually there will doubtless be some readjustment of the company's capital in order to clear up all of the back dividends, but just at present there is nothing definite decided on that score.

American Woolen

H. W., Logansport, Pa.—While it has never failed to pay the full 7% dividend, it has failed to earn that dividend many times in the last ten years. The record follows:

	Earned Per cent	Paid Per cent
1915	10.20	7
1914	6.97	7
1913 .....	..	7
1912	8.04	7
1911	8.06	7
1910	8.64	7
1909	10.64	7
1908	3.66	7
1907	4.12	7
1906	11.24	7

The above record does not tend to inspire confidence in the stock. While current earnings are highly satisfactory and while the company is booked ahead on a sufficient amount of orders to insure big profits for 1917, the future after the war is uncertain.

Firestone Tire & Rubber

G. J. J., Babylon, L. I.—Firestone Tire & Rubber was originally incorporated in 1900 and reincorporated in March, 1910, under the laws of Ohio. It manufactures rubber, pneumatic and solid tires and demountable rims. The factories are located in Akron, Ohio. The authorized capital is \$4,000,000, shares \$100, of which \$1,000,000 preferred and \$3,000,000 is common. The par value of the common stock was recently reduced from \$100 a share to \$10 a share, and the capital stock was increased from \$4,000,000 to \$5,000,000 of which \$4,000,000 is common and the remainder preferred. The new preferred is 6% cumulative

and the new common is on a 5% quarterly basis. Dividends on the old common stock were paid as follows:

1910, 5%; 1911, 7%; 1912 and 1913, each 10%; January, April and July, 1914, each 2½%; October, 1914, 3% and 2% extra; January, April and July, 1915, each 3%; October, 1915, 5% and 4% extra; January, April and July, 1916, 5% each.

The latest quotations on the old common stock are 140 bid, offered at 145. The company is doing a big business and is making very large profits. It must be borne in mind, however, that these profits are somewhat abnormal, and it is a question whether these large earnings can be maintained under less favorable conditions.

All the rubber companies are facing increased labor and material costs and their outlook is somewhat dubious.

International Mercantile Marine

W. H. M., Newark, N. J.—International Mercantile Marine Pfd. is a risky speculation anyway you look at it, and we cannot recommend the purchase of the stock. We are disposed to the view that because of the many uncertainties in the Mercantile Marine situation the stock will seek lower levels. At a lower price it may prove an attractive purchase, but that will depend upon subsequent development.

U. S. Steel

F. N. G., St. Louis, Mo.—U. S. Steel Com. investment value is problematical. The Steel Corporation has undoubtedly put an enormous amount of surplus earnings back of the common stock in the last two years. But what must be looked forward to is the next period of depression, earnings below normal, perhaps not sufficient to cover dividend requirements. The stock is likely to sell much below par again. However, it is a question whether it would be advisable for you to liquidate on the present market. There are good grounds for the belief that earnings will continue heavy for some time yet under most any conditions, and that extra dividends will also be maintained. We think it would be best for you to await a higher market on which to liquidate Steel, unless some unexpected condition arises.

Two Rails

M. C., Elmhurst, L. I.—New Orleans & Northeastern Railroad stock is a high grade investment issue and you would be perfectly warranted in holding it for safety and income only at this time.

C. M. & St. Paul is selling low because of the decreases recently shown in the net earnings of the company, due to very heavy maintenance charges and also due to the effect of rising material and labor costs which have added to the operating charges of the road.

Important Railroad Reorganizations

Causes Which Have Placed Many Large Systems in Receivers' Hands—The Parallel Period of 1893-99 — Outlook for the New Securities—Rock Island, and Cincinnati, Hamilton & Dayton

By B. E. CARR

SOME conception of the unprecedented severity of the ordeal which corporate securities have undergone during the past three years may be gained when it is stated that in that time more than one hundred corporations have defaulted in payment of either interest or principal, or both, of some or all of their securities, or at least have had to submit to drastic readjustments in order to remain or become solvent. This state of affairs has called into being approximately two hundred protective committees, representing thousands of security holders; whose hundreds of stock and bond issues, aggregating more than \$2,500,000,000, have been placed in jeopardy. Of the unfortunate companies involved in this cataclysm of failure, public utilities and industrials share almost equally to the extent of about twenty-five companies in each case, while approximately seventy-five railroad corporations are represented.

Receivership Causes

Hostile state and federal legislation; increasing expenses of operation; the demands of labor; heavy taxation; the difficulty of obtaining funds for necessary extensions and improvements are only a few of the contributory causes. It will not do, however, to jump rashly to the conclusion that because of recent troubles railroad securities are undesirable as investments. Some of the companies under consideration have emerged already all the stronger for the vigorous curative treatment to which they have been subjected, and there are signs that even Washington and the various state legislatures are at last beginning to realize the folly of cutting off, by harsh and discriminatory treatment,

the supply of golden eggs from this particular goose.

A Parallel Case

To find a parallel state of affairs to that which has obtained during the years now under review, it is necessary to consider the period between 1893 and 1899, during which some 40,000 miles of road, about a quarter of the entire railroad mileage of the country at that time, and representing a capitalization of almost \$2,000,000,000, were sold under foreclosure. Some of the roads then reorganized, notably Reading, Union Pacific, Northern Pacific, Atchison and Baltimore & Ohio, are now regarded as among the best of the country's transportation systems and their securities are eligible for savings bank investments and trust funds under the strictest requirements of such states as New York and Massachusetts while Erie, which faced its fifth reorganization in 1893, has increased its gross earnings in the past ten years from \$47,000,000 to \$66,000,000, its net from \$15,000,000 to \$23,000,000 and is now showing about 10% earned on its first preferred stock and about 20% on its second preferred.

The reorganizations of the nineties are now a matter of ancient history, and of interest only as they may serve as guides in our contemplation of the readjustments of the present day. Did those who purchased or received in exchange the various securities then issued ultimately profit by the transaction, or was the faith of those bond and stockholders unjustified?

In a series of articles published some months ago by the *Wall Street Journal*, it was stated that an estimate based on the purchase of \$1,000 each of

the issues affected by the readjustments of the nineties, at their low prices, and the resale of these securities at the high prices which prevailed from 1901 to 1906, would have shown profits aggregating about 77% in the case of bonds the interest of which was paid regularly throughout the period of receivership, and about 110% where defaulted bonds were exchanged for other securities. As examples of appreciation in price may be mentioned the Atchison General 4s, which in the ten years from 1896 to 1905 had advanced nearly 40 points; the Atchison Adjustment 4s, which showed an increase of more than 70 points; the Northern Pacific Prior Lien 4s, which went from 84 to 104, and the Oregon Short Line Income 5s, from 44 to 106. These bonds are now all in the "gilt-edge" investment class, and it is difficult to realize that twenty years ago they were on practically the same plane as the Rock Island, Missouri Pacific and Frisco issues of to-day.

Outlook for New Securities

During the closing months of 1916, trading in reorganization issues reached quite extensive proportions, and a number of these securities recorded advances of from 20 to 40 points from the low of the two-year period 1914-1916. Since the middle of December, prices for the reorganization bonds and stocks have receded somewhat, in common with all other securities, due almost wholly to the present unsettled state of international affairs, and the imminence of the participation of the United States in the world conflict. The fundamental conditions affecting the value of such issues are unchanged, and at their present comparatively low prices it would appear that many of the reorganization issues are a distinctly advantageous purchase.

It should be borne in mind that one point in favor of such bonds and stocks is the fact that their market value cannot be depressed by any influx from Europe, a condition which has in some instances operated against "standard" rails during the past two years. Railroad earnings are almost uniformly good, and in many cases gross income

is from two to three times the amount necessary for the readjusted fixed charges. It looks as though most of the new preferred issues would be dividend-payers almost from the start, and there are good speculative possibilities in the new common shares, some of which seem likely to repeat the records of such stocks as those of the Atchison, Union Pacific, Northern Pacific and other roads prominent in the reorganizations of twenty years ago.

Principal Reorganizations

A brief survey of a few of the principal reorganizations may be of interest. The following are perhaps of most general interest:

- I. Chicago, Rock Island & Pacific.
- II. Cincinnati, Hamilton & Dayton.
- III. Minneapolis & St. Louis.
- IV. Missouri Pacific (including St. Louis, Iron Mountain & Southern.)
- V. Pere Marquette.
- VI. St. Louis & San Francisco.

The Wabash, having been out of the hands of receivers for more than a year, can hardly be termed a current reorganization, and is therefore omitted from the above list.

Let us take the various roads in order, and determine what are the essentials of each reorganization or financial readjustment; how the existing security holders were treated and in what way the interests of investors are safeguarded.

I. Chicago, Rock Island & Pacific Railway Co.

Of the various railroads now in process of reorganization, none has encountered greater obstacles than the "Rock Island." Nearly two years ago it was thrown into the hands of receivers, because of inability to pay the comparatively small amount of some \$6,000,000, maturing short term notes. Subsequently Committee followed Committee and plan followed plan in bewildering succession; foreclosure and restitution suits were brought by disgruntled security holders; Federal investigation was urged by a minority group of stockholders, and not until November, 1916, was a plan finally agreed upon by the various representative committees. Yet, throughout

all these two years of the receivership the only interest in default, apart from certain guaranteed obligations, was that for January and July, 1916, on \$20,000,000 Debenture 5s, not secured by mortgage! Even in 1915, when the fortunes of the Company were at their lowest ebb, earnings were more than sufficient to take care of all other obligations.

The securities of the Rock Island affected by the reorganization are the \$20,000,000 Debentures, the \$74,359,722 capital stock and notes, and receivers' certificates and collateral loans aggregating \$18,188,000, a total of \$112,547,722.

No new bonds were issued in the reorganization. The new capitalization consists of

First 7% Preferred Stock...\$30,000,000
Second 6% Preferred Stock 20,000,000
Common Stock 75,000,000

Total\$125,000,000

Stockholders of the old Company, upon payment of an assessment of \$40 per share, were entitled to receive for their old stock par for par in new common and also \$40 par value for each share in new 7% preferred stock. The new 6% preferred was issued in exchange for the Debentures, par for par. It was provided that the other obligations of the Company noted above should be liquidated out of the \$29,743,889 cash to be received through the sale of the new 7% Preferred and Common Stocks, the remainder of this sum being applicable to reorganization expenses, commissions and working capital.

So much for the plan, by which a reduction in fixed charges of more than \$2,000,000 per annum was effected. In the light of the Company's present status, what are the prospects for its bonds and the various new stock issues? It has been stated by the Reorganization Managers that had the plan been in effect during the fiscal year which ended June 30, 1916, there would have been a surplus applicable to dividends of \$4,894,977, a sum sufficient to pay full dividends on both classes of

preferred stocks and leave a balance of \$1,594,977 for the common.

Rock Island Refunding 4s are now selling at about 75 and interest, at which price the yield is approximately 6.50% per annum. The 7% First Preferred is quoted around 86; the 6% Second Preferred at about 70 and the common at 36. In view of the favorable earnings now being recorded by the Company and of its greatly improved financial position, these securities appear most attractive and should give a good account of themselves later on when there is a resumption of market activity.

II. Cincinnati, Hamilton & Dayton Railway Co.

The system as it existed prior to reorganization comprised 622 miles of road. Of this there has been retained the main line of 200 miles between Cincinnati and Toledo, and other mileage aggregating 218 miles, a total of 418 miles. The remaining mileage has been reorganized separately. The outstanding feature of the reorganization is the co-operation accorded by the Baltimore & Ohio Railroad Company which, by virtue of its guarantees and security holders, had a large interest in the Cincinnati, Hamilton & Dayton. At the time of reorganization the Baltimore & Ohio took over the lines from Cincinnati to Toledo, Ohio, and branches aggregating 368 miles, and now operates them as an integral part of its own system, issuing its own bonds to the bondholders who participated in the plan. These bonds, which bear 4% interest and mature in 1959, known as the "Toledo-Cincinnati Division Bonds," will ultimately be secured by a direct lien upon the main line of the old Company.

These bonds are the chief point of interest in this reorganization. As a direct obligation of the Baltimore & Ohio they will have recourse to the surplus earnings of the entire Baltimore & Ohio system, but quite apart from this, the earnings of the mileage covered by the mortgage securing the issue are believed to be ample to meet all charges.

(To be continued)


BONDS AND INVESTMENTS

Accounting An Investor Should Know Qualifications of the Analyst—Method of Analytical Procedure—Liabilities and Their Relation to Assets —Wrong Methods

By EARL A. SALIERS

Assistant Professor of Accounting, Sheffield Scientific School of Yale University

ARTICLE IV—Analysis of the Balance Sheet

NE fairly familiar with the theory of balance sheet construction should be able to analyze a given balance sheet successfully. But such an analysis implies a certain amount of research beyond what is presented in the more or less abbreviated statements generally issued. One must acquire the ability to construct comparative statements showing tendencies over a period. This no single balance sheet can do by any possible interpretation. What is equally important, one must learn to draw his own conclusions. This requires not only a theoretical knowledge of balance sheet architecture, but also a familiarity with business conditions, both those of a general character and those peculiar to the business under consideration.

As the skill of a chess player depends upon the thoroughness and farsightedness with which he comprehends all possible conditions and contingencies of his game, so the skill of the financial student depends upon the care and thoroughness with which he studies and comprehends the significance of variations in quantities and the meaning of the relationship of one item to another. It is to this ability to weigh and compare that some business men owe their pre-eminence in judgment and insight. Some rules of interpretation may be formulated, but their application depends upon the ability and judgment of the individual.

What Analysis Implies

Balance sheet analysis means the con-

sideration of each item therein contained with reference to the other items in the statement. The significance of any particular item such as "cash" or "notes payable" is not an absolutely separate matter to be judged by itself, but a relative one growing out of the relationship which every item in a balance sheet bears to every other item. Thus the significance of the "raw materials" account in the balance sheet of a manufacturing company does not consist in its bare amount. Whether this be large or small, a prolonged contemplation of its quantity *as such* is not likely to produce any very great degree of satisfaction.

The investor's main object is to discover the ability of a given company to meet the interest and dividend requirements on its bonds and stocks as well as to redeem its bonds ultimately. But while his direct interest is thus narrowed down to a few primary considerations there are various collateral considerations which he must not neglect.

Method of Procedure

For our purposes it is best to consider this matter under two heads, namely, (a) provisions for the ultimate liquidation of indebtedness, and (b) factors and tendencies affecting the present and future interest and dividend paying ability of the company.

(a) Funded Indebtedness

The ultimate payment of a debt is usually of less immediate concern than the regular payment of interest on that

debt. If the time of repayment of money borrowed is extended into the infinite future an annuity results and the only question affecting its value is, what is the ability of the debtor to pay the interest? But annuities are not popular in America, and consequently most securities issued here have a specific date of redemption, or at any rate must be redeemed upon or before a given date. Both sinking fund and serial bonds come within this class.

How Bondholder Is Protected

In case of sinking fund bonds the usual procedure is to pay periodically to a trustee a certain sum of money, the accumulation of these sums to be employed ultimately in the liquidation of bonded indebtedness. The interest earned by this money while held in trust may or may not be added to the principal of the trust fund. If it is added to the trust fund the amounts of the periodic instalments to the trustee are not as large as otherwise. The instalments need not, however, be of equal amount. Sometimes they are made a percentage on the outstanding bond issue, while in other cases they are made to vary with the amount of business transacted, and in yet other cases with the gross or net profit. The general theory of funds and reserves will be given detailed attention in a later article. Enough has been said to prepare the way for our first step in the work of analyzing the balance sheet.

It should be clear now that a bondholder can have the protection afforded by a mortgage upon real estate as well as that provided by the sinking fund. The greater the amount in the sinking fund the less will be the extent to which the bondholder will look to the property covered by the mortgage. The growing tendency to employ any considerable sinking fund accumulations for the redemption of outstanding bonds keeps these accumulations from becoming large; consequently, in case of bankruptcy their significance is less than if these funds were kept intact. Moreover, since, in theory at least, the sinking fund equals the outstanding indebtedness, for the payment of which it was created,

only when the time of redemption arrives, it follows that the greater the time intervening between a period of financial embarrassment and the time when the obligation will fall due the less will be the sinking fund accumulation. Hence the condition of the fixed assets, or whatever property may be covered by mortgages, is of much concern to the interested bondholder.

Relation of Liabilities to Assets

To enter into the technicalities of mortgage liens would take us beyond the scope of this article. But the reader should learn to recognize the connection between long-term liabilities and the assets which wholly or partially protect them through the presence of mortgage liens. In some instances this is a very simple matter, but we sometimes meet with situations of great complexity requiring much care to decipher what position the several bond issues hold in their relation to one another and to the assets which protect them. Some railroad companies afford good examples of a multiplicity of liens. Not only may the same property be subject to a series of mortgages—first, second, third, and so on—but the names of the bonds are oftentimes misleading. A bond may be protected by a first mortgage on a comparatively small and insignificant bit of property and by a second or third mortgage upon a large portion of the company's real estate. But if it is given some such name as "first and refunding," the fact that it is a first mortgage bond is placarded abroad much to the detriment of those unfamiliar with the facts.

The investor should proceed with his investigation of the balance sheet until he has clearly established the relationship existing between fixed liabilities and fixed assets. When he has done this he is prepared to judge for himself what is the standing of the various security issues.

Valuation of Assets

Some perplexing questions arise when we attempt to make a satisfactory valuation of a company's assets—for it is assumed that the investor will not unquestioningly accept the figures given in the

balance sheet. There are several bases upon which valuations of property are made and the investor must choose the one that will best suit his purpose. What determines the present value of assets for purposes of security to bondholders? Is it the earning capacity of those assets, or their original cost, or their cost of reproduction, or their break-up value when sacrificed under the hammer? If a company is in financial difficulty and approaching bankruptcy, very little allowance should be made for earning capacity, and a conservative valuation—perhaps much below original cost—should be placed on the assets. If, on the contrary, the company is prosperous, and a surplus is being accumulated, it would be a very conservative policy, from the investor's point of view, to accept original cost as a basis for valuation of the fixed assets. In such instances a very large increment of value results, which may be considered as an addition to the value of the tangible assets or which may perhaps even better be considered by itself as good will or going concern value. Many prosperous corporations continue to enter their assets at cost and make no entry for going concern value, with the result that, from the investors' point of view, their balance sheets indicate very considerable undervaluations—a fault easily pardoned.

Some public utility companies possess franchises of greater or less duration which, even though they may have been secured for the asking, have grown more valuable with the development of the community served.

Care should be taken to see that obsolescent and worn out buildings are not carried in the balance sheet at cost or other excessive figure. Land does not usually depreciate in value. On the contrary, it frequently appreciates in value owing to increasing density of population and the growing demand for space, which is continually diminishing. But buildings, railroad ties and rails, rolling stock, terminals and most other structures do depreciate and ultimately must be replaced. Since depreciation will be the topic of a future article we will not consider it further at present.

(b) Factors and Tendencies Affecting Interest and Dividend Payments

The importance of a consideration, by the investor, of the current assets has already been suggested. The reason for this is not because bonds and stocks are protected by liens on current assets, for they are not, but because it is to these that the management must look for the satisfaction of the current interest and dividend requirements. Bankruptcy is too frequently the result of the inability of an otherwise healthy corporation to pay interest falling due or to meet payment on an issue of notes or bonds when assets greatly exceed debts, but it is impossible to obtain enough cash to make payment. The experience of the Westinghouse Company is a classic example of this kind of embarrassment. During the period of financial stringency which accompanied the panic of 1907 many companies found it difficult to secure funds for current requirements—a condition which our new banking system will tend to mitigate even though it does not altogether remove the danger.

How Working Capital Is Tied Up

The strength of the situation with respect to the current assets, particularly cash, depends not so much upon the absolute amount of these assets as upon the extent to which they are effectively tied up by accruing wages, accounts and notes payable, and other obligations the payment of which cannot be delayed. The policy of requiring prompt payment on purchases and of charging interest on over-due accounts meets with the approval of the National Association of Credit Men; moreover, the promise of an early extensive adoption of the trade acceptance will render even more inevitable the prompt payment of commercial obligations.

Accordingly, the history of a company's policy with respect to its current liabilities merits careful consideration. Nothing else casts so much light on the efficiency of the management as a searching investigation of its policy of meeting its current obligations. Efficiency in this department means efficiency all the way from the purchase of the goods to the

payment of the wages of the man who turns the goods over to the consumer. Over-buying and a slow turnover inevitably lead to slow payment of current obligations and weakened credit. This in turn means the loss of the most advantageous terms of making purchases—the loss of cash discounts, increased interest obligations, and loans made to meet debts that ought to be paid out of current revenues. Although the connection may not be evident at first thought, a good system of taking care of raw materials and stock goes a considerable way toward reducing current obligations. As a business expands it becomes increasingly difficult to determine accurately the quantities of the various kinds of raw materials and supplies on hand or required. The consequence is that, unless a scientific method of keeping stock is introduced, an excess of some kinds of goods will be kept while there exists a deficiency of others. All in all a large surplusage is likely to occur in the inventories, which requires the useless tying up of working capital.

Wrong Methods

I have chosen this somewhat unusual method of approach to the balance sheet

because I believe that many people have erred, in attempting its analysis, by giving too little attention to the relative position that each account holds. We have not exhausted the subject, but our purpose has been rather to offer suggestions as to the mode of approach. If an investor possesses a fundamental knowledge of the principles that underly the construction of financial statements the differences in detail with which he will constantly be confronted should not give him any great difficulty. He cannot find in print a discussion sufficiently complete to guide him under all circumstances. But he can secure a good understanding of the principles needed to aid him in his search for financial truth.

One cannot secure knowledge from a paucity of figures, however. There are balance sheets that no expert could analyze satisfactorily. The information contained in many prospectuses and bond circulars is the despair of the wise and the lure of the ignorant. Unless some information additional to that found on their pages can be secured the investor may well recall the proverb of the fool and his money and look for something more satisfactory.

Investment

Just as the gradation from gambling to speculation is imperceptible and there is no hard and fast line of demarkation, so speculation, as it avoids chance to a greater degree, in pursuit of more certain, if possibly more modest opportunities for gain, graduates imperceptibly into investment. Likewise, if it is a fair contention that gambling is a lower order of activity than speculation, since it seeks to acquire something which has not been earned, and in the operation produces no new wealth, and does not more favorably distribute wealth which exists, then investment is a higher order of business activity than speculation; for chance is eliminated as nearly as possible, and all operations are conducted in compliance with natural laws, and there is a nicer relation between the labor and the reward, and there is less loss or waste if indeed there may be less gain. Furthermore, investment more surely and permanently creates new wealth.—*Chamberlains' Bond Investment.*

Investment Offerings

[Under this caption we will publish from time to time a list of what we regard as conservative investment offerings by firms of unquestioned reliability. These securities will be of the type that should interest investors who regard safety of principal as the primary consideration in making their commitments.—Editor.]

ALABAMA WATER COMPANY. First Mortgage 6 per cent. sinking fund gold bonds, dated January 1, 1917, maturing January 1, 1932. Callable at 105. Coupon form, \$1,000 and \$500 denomination. Offered, subject to prior sale, at 102½ and interest, yielding over 6 per cent. if called; otherwise about 5½ per cent., by Spitzer, Rorick & Co., Equitable Building, New York City.

BETHLEHEM STEEL COMPANY. Two year 5 per cent. secured gold notes, dated February 15, 1917, due February 15, 1919. Interest payable semi-annually, February 15 and August 15. Coupon notes in denominations of \$1,000, \$5,000 and \$10,000, callable in whole or in part at any time upon four weeks' notice at 101 and interest. Offered, at 98½ and interest, to yield about 5.75 per cent., by Guaranty Trust Co. and Bankers Trust Company, New York.

CHESTER & PHILADELPHIA RAILWAY CO. (Chester Short Line). First mortgage 5 per cent. gold bonds, due July 1, 1940. Authorized and issued (close mortgage) \$600,000, free of Pennsylvania State tax. Interest payable semi-annually January and July 1 without deduction of normal Federal income tax. Listed on the Philadelphia Stock Exchange. Price to yield over 5.10 per cent. Offered by Harper & Turner, 1000 Stock Exchange Building, Philadelphia.

CLEVELAND ELECTRIC ILLUMINATING COMPANY, CLEVELAND, OHIO. \$2,000,000 first mortgage 5 per cent. gold bonds, dated April 1, 1909. Due April 1, 1939. Coupon bonds, \$500 and \$1,000 each. Redeemable on April 1, 1924 at 107½ and interest and thereafter on any interest date at a price decreasing at the rate of one-half of one per cent. until maturity. Offered by Spencer Trask & Co., New York City.

COMMONWEALTH OF MASSACHUSETTS. \$4,024,100 registered 4 per cent. gold bonds, tax exempt, maturing each year, 1917 to 1956. Prices, according to maturity, to yield from

3.50 to 3.75 per cent., exempt from both Federal and Massachusetts income taxes. Offered by Harris, Forbes & Co., New York City.

GOSSARD, THE H. W., CO., INC. New issue of \$500,000 7 per cent. cumulative preferred stock, preferred as to assets and dividends. Dividends payable quarterly. Redeemable at option of the company, in whole or in part up to and including August 1, 1919, at 102½ and accrued dividends; from August 2, 1919, to and including February 1, 1922, at 105 and accrued dividends; from February 2, 1922, to and including August 1, 1924, at 107½ and accrued dividends; thereafter at 110 and accrued dividends. Offered at a price of 98 and accrued dividends by Child & Levering, 39 So. La Salle street, Chicago, Ill.

MONTREAL, CITY OF. \$1,500,000 sinking fund gold 5 per cent. bonds. Dated February 1, 1917. Due February 1, 1947. Denomination, \$1,000. Price of 98.50 and interest, yielding about 5.10 per cent. Offered by Chas. H. Jones, 20 Broad street, New York City.

NICKLAS MINING COMPANY. Six per cent. sinking fund gold bonds. Dated November 1, 1916. Maturing \$75,000 annually from November 1, 1918, till 1921. Coupon bonds, \$500 and \$1,000. Interest payable November 1 and May 1. Price, par and interest. Offered by Breitung & Co., Ltd., 11 Pine street, New York City.

PORT ARTHUR, CITY OF, TEXAS. \$131,000 5 per cent. municipal bonds, denomination \$500. Principal and semi-annual interest payable at New York City. Offered by Messrs. Hornblower & Weeks, 42 Broadway, New York City.

SALT LAKE, GARFIELD & WESTERN RAILWAY COMPANY. First mortgage 6 per cent. gold bonds, dated September 1, 1916, due serially 1919 to 1941. Callable at 104. Coupon bonds of \$100, \$500 and \$1,000. Interest March 1 and September 1. Price to yield 5.75 per cent. Offered by C. F. Childs & Co., 120 Broadway, New York City.

EDUCATION

"Education is not a local issue. Its standards are relentlessly set in the markets and open forum of the world. A thousand times over we have paid the price for our blindness in the past, and daily for every dollar we save we now pay tribute ten times over. The immediate future will put us under far greater tribute. The issue is but a new form of the ancient issue of slavery and freedom. An ignorant people are as truly in slavery, economic and intellectual, as if they were in physical bondage. 'An educated mind is the genius of democracy. . . . It is the only dictator that freemen acknowledge, and the only security that freemen desire.' Without it there is no freedom."—*President E. K. Graham, University of N. C.*

Bond Inquiries

B. R. T. 5's

L. R. G., Chicago, Ill.—There is no need for apprehension as to the decline in Brooklyn Rapid Transit's 5% notes due 1916, providing you are expecting to hold these for investment until maturity. The decline was in sympathy no doubt with the break in the stock, but, although it was sympathetic, there is no reason to fear in the least that these notes will not be met in full at maturity. There should be no extraordinary trouble in connection with the refunding of the notes.

Argentine 6's

H. H. G., N. Y. City.—Argentine 6's are a very attractive and desirable investment and it is hardly worth while to try to make a turn in them, although it is possible that these notes will sell somewhat lower, in view of the pending large additional loans to be floated by foreign governments in this country.

B. & O. 5's

W. H. M., Brooklyn, N. Y.—Baltimore & Ohio refunding 5's and Interborough Rapid Transit 1st and refunding 5's are both high grade investments, and we suggest that you keep them. It is not a good idea to try to speculate or catch the turns in bonds of this character. You should purchase such issues for safety and income only as a general rule.

Peoria & Pekin Union Ry. 6's

G. H. W., Los Angeles, Cal.—Peoria & Pekin Union Railway 1st 6's are an exceptionally high grade bond. They are now selling at a premium and, as their maturity is 1921, it would appear to be good policy for you to liquidate them if you can do so without loss, holding your money in readiness to reinvest in something else at an opportune time.

Consolidated Cities 5's

H. K., Astoria, L. I.—Consolidated Cities Light, Power & Traction 5's are a rather attractive investment bond. They are guaranteed as to principal and interest by the Cities Service Company. A full description of the issue is contained in the enclosed circular.

Cleveland Electric Illuminating 5's

C. W., Nashville, Tenn.—Cleveland Electric Illuminating 1st mortgage 5's are a direct obligation of the company and secured by a first mortgage on all its properties now owned or hereafter acquired. This property is stated to have shown a cost of over \$21,000,000 to November 30, 1916. The amount of the bonds outstanding is \$10,500,000. The issue is protected by a wide margin of

safety in earnings and is entitled to a good rating.

Various Bonds

M. S., New York City.—In order to apply the principle of diversification in your investments, you should not confine your selections to bonds of one group of companies. It would be better, therefore, for you to select part utility and part industrial bonds, and we recommend the following as conservative business men's investment issues yielding from 5% to 5½%:

UTILITIES

American Tel. & Tel. Collateral Trust 5's—approximate price, 100; approximate yield, 5%.

Montana Power 1st and Refunding 5's—approximate price, 99; approximate yield, 5%.

Consolidated Cities Light, Power & Traction 1st 5's—approximate price, 92; approximate yield, 5%.

INDUSTRIALS

New York Air Brake 1st Consolidated 6's—approximate price, 105; approximate yield, 5.6%.

Texas Company Debenture 6's—approximate price, 105; approximate yield, 5.6%.

Excellent Bonds

F. L. S., Chicago, Ill.—While all the bonds you mention are excellent investment issues and are reasonably safe as to principal and interest, we think that it would be a better plan to distribute your risk more evenly by putting part of your funds into some railway bonds of about the same yield as the utility bonds you mention.

Some excellent railway bonds are Southern Railway Equipment Trust, yielding about 4.9% on the present price; Erie 1st Conv. 4's, yielding about 4.6%; Kansas City Southern Ref. 5's, yielding 5.5%, or New York, Lackawanna & Western 5's, yielding about 4.8%. A combination of part of these railroad bonds and part of your list, preferably American Tel. & Tel. Col. Trust 5's, Armour & Co. 4½'s, Laclede Gas 5's and Montana Power 5's, would make an excellent investment list.

Hawaiian Government 4s

K. A. D., N. Y. City.—Hawaiian Government 4% Bonds are now nominally quoted 101½-Bid-102-Asked. They have sold as high as 106 recently, but the break in diplomatic relations with Germany and the expectation that the United States Government will float a new loan has had an unfavorable effect on the price within the last few weeks. These bonds are a direct obligation of the Hawaiian Territorial Government. We do not regard them as being as gilt edged a security as Panama Canal Bonds because the latter are a direct obligation of the U. S. Government.

PUBLIC UTILITIES

Southern California Edison Company Important Pending Developments—Effects of Merger with Pacific Light & Power Corporation—Estimated Earn- ings of New Company—Status of Securities

By WALTER G. WHITE

PERHAPS no public utility company in the country has more numerous and important matters pending than the Southern California Edison Co. In the first place there is an important merger with the Pacific Light & Power Corporation and also a merger with the Mount Whitney Power & Electric Corporation both of which must be approved by the California Railroad Commission. Then there is the very important matter of the sale of part of the distributing systems of this company and the Pacific company, the terms of which have been agreed upon, but which requires for consummation a bond issue of \$12,000,000 by the city and which must be approved by the voters.

To understand the present situation and to gain the proper perspective on the company's securities a little retrospection and historical data is necessary.

Growth of Company

The growth of this company is the story of the growth of southern California. It was incorporated in 1909 as the successor to the Edison Electric Co. and serves a population of about 800,000 with power and light in and about Los Angeles. The Santa Barbara Gas & Electric Co. is controlled by stock ownership. Among the cities served are Pasadena, Long Beach, Riverside, San Bernardino, Redlands and others in a territory of 45,000 square miles with 144,000 consumers.

Capitalization

From an authorized issue of \$30,000,000 the capital stock was increased to \$100,000,000 in April of last year. At the present time there is \$4,000,000

5% cumulative preferred outstanding and \$10,405,500 common. An unusual feature of the preferred is that it has equal voting power with the common and shares equal with the common in respect to earnings after payment of 5% dividends on the latter. That the company finds itself in prosperous condition is indicated by the 7% rate which both issues are paying at the present time.

The funded debt of the company consists of \$19,684,000 of which \$13,360,000 is in the form of general mortgage 5s due 1939, \$2,000,000 in the form of convertible debenture 6s, due 1920. The rest is in the form of issues by subsidiary companies. It was announced a year ago that the Bankers' Trust Co. had been appointed agents in New York for the conversion of the convertible bonds. The present price of the stock (94-6 at this writing) makes the conversion privilege attractive as \$1,000 par of the bonds can be converted into 11 shares of stock, par \$100.

The Merger

The consolidation with the Pacific Light & Power Corporation mentioned above still awaits the O.K. of the California Railroad Commission and by the time this appears in print the official sanction may have been obtained. Control of the Pacific company to extent of about 90% of the stock lies in the hands of H. E. Huntington, son of Collis P. Huntington of railroad fame. The plan is to obtain the stock of the Pacific company in exchange for stock in the Southern California company and the company will issue \$12,029,900 second preferred stock limited to 5% in divi-

dends to pay for the Huntington holdings.

The Pacific company was incorporated in 1910 and has \$10,559,500 common stock, \$5,000,000 first preferred and \$9,975,000 second preferred with a funded debt of approximately \$24,000,000. By the merger Mr. Huntington will become the largest individual stockholder in the merged company. In explanation of the purposes of the merger, President Miller of the Southern California Edison Co. issued a statement last December which contained the following observations:

"The consolidation of the many generating plants and distributing systems into one large property will permit of efficiencies of operation and economies heretofore impossible of accomplishment. The effect will undoubtedly be to reduce the cost of current, but the greatest benefit will be through the interconnecting of the many hydro-electric and steam plants operated by these companies so as to insure absolute continuity of service."

The consolidated company will have approximately 300,000 h. p. of generating capacity of which its five steam

400,000 h. p. The company will have 1,380 miles of high tension transmission lines and more than 3,700 miles of distributing lines with 103 sub-stations supplying energy of 150 communities.

Sale of Distributing System

Like most public utility concerns the Southern California Edison Co. has had to contend with the municipal ownership fad. For the last ten years there has been controversy between the city and the company but at the present time it looks as though something like peace might be obtained. When the city of Los Angeles began to evolve the plan of furnishing electric energy to the city from the development of a power plant on the water supply aqueduct built by the city, it entered the domain of the Southern California company. The result of the long negotiations was that the city decided to take over the company's distributing lines and last September the California Railroad Commission fixed the actual value of the property wanted by the city at \$4,750,000, but in addition, placed severance damages at \$1,578,000. The case is of especial interest as it is the first of its kind involving damages to a company of this sort for loss of property through condemnation proceedings. In December it was announced that the directorates of the Southern California Edison Co. and the Pacific Light & Power Corporation had accepted the city's proposition for the purchase of their distributing systems. The amount to be paid by the city for the two systems is \$8,270,917 and in addition \$1,986,000, of which a part will be paid with the purchase price and part will be cared for in the ten year contract for furnishing electric current to the city for distribution. Under the arrangements made with the City, the Company will receive a substantial amount of cash through the sale of part of its distributing lines to the City. Under the terms of the Indenture securing the General Mortgage 5% Bonds, these moneys will be deposited with the trustee or used for additions and betterments.

TABLE I

COMBINED EARNINGS OF SOUTHERN CALIFORNIA EDISON COMPANY AND PACIFIC LIGHT & POWER CORPORATION FOR 1915-1916.

	1916	1915
Operating revenue	\$8,162,501	\$7,734,260
Operating expenses, including taxes	3,359,330	3,202,003
Net operating revenue.....	\$4,803,171	\$4,532,257
Non-operating revenue ...	227,924	248,601
Net income	\$5,031,095	\$4,780,858
Interest deductions	2,284,496	2,360,955
Balance applicable to depreciation and dividends.	\$2,746,599	\$2,419,903

plants will furnish about 140,000 h. p. and its 13 hydro-electric plants about 150,000 h. p. In addition it will have undeveloped water power sites, capable of being developed to furnish

For the first ten years the city guarantees to take from the companies a minimum of from 50% to 25% of the total maximum demand of the city system. After ten years the city agrees to take from the companies all the energy it will use over and above that generated in its own hydro-electric plants at rates to be fixed by the commission or other legal authorities. The matter of acquisition of the distributing systems of these two companies is to be decided by popular vote as well as

regarded as a conservative criterion as it takes no account of earnings from the Mount Whitney Power & Electric Corporation or other properties which the company is planning to take over with the consent of the California Railroad Commission.

The first preferred stock is selling around 105 as this is written and is on an attractive investment basis for an issue of this sort as it yields normal around 6.6%. Moreover it possesses all the speculative attractiveness of a

TABLE II
SOUTHERN CALIFORNIA EDISON—STATEMENT OF OPERATIONS—BY YEARS
1906 TO 1916

Year Ending Dec. 31	Gross Earnings	Net Earnings	% of Net Earn. to Tot. Cap.	Int. Chgs. Amortiza- tion, etc.	Balance	Pfd. Div. Rate	Com. Div. Rate	Surplus Accumu- lated
1906	\$1,724,335	\$1,011,523	5.58%	\$424,224	\$587,298	5%	.....	\$18,141
1907	2,206,381	1,338,006	6.10	574,517	763,489	5	2½%	52,128
1908	2,477,062	1,444,609	6.62	601,441	843,168	5	5	35,915
1909	2,895,406	1,409,253	6.55	598,712	810,541	5	1¼	442,912
1910	3,384,933	1,667,076	6.99	651,492	1,015,584	5	3¾	613,745
1911	3,738,165	1,902,280	7.47	624,828	1,277,451	5	5	475,362
1912	4,340,500	2,011,414	7.63	708,796	1,302,618	5	5	227,300
1913	4,779,279	2,354,465	7.85	819,444	1,535,020	5	5	221,871
							8	
1914	4,855,140	2,522,976	8.04	892,010	1,630,966	5¾	6	230,941
1915	4,933,116	2,714,498	8.68	1,003,181	1,711,317	6	6	313,634
1916	5,034,249	2,800,016	8.99	1,004,015	1,796,001	* { 1½ † { 1¼	** { 1½ † { 1¼	441,923

*Jan., Apr. and July payments.

†October.

**Feb., May, Aug.

‡November.

§ \$150,000 Scrip dividend.

the matter of issuing \$12,000,000 in city bonds to pay for the systems. As far as the Southern California company is concerned, then, it becomes a wholesale distributor of electric current in Los Angeles instead of a retailer but both companies have large contracts with electric railways with and without Los Angeles and all these contracts will be retained and in addition the companies will continue to supply all electric lighting and power demands in their territories outside of Los Angeles.

Earnings and Prospects

Table II which accompanies this article shows the earnings of the Southern California Edison Company for the last eleven years. Moreover it may be

common stock as it shares equally with the junior issue after 5% has been paid on the latter. At 95 the common yields 7.3% and for that reason will appeal to the class of investors who are willing to accept the higher yield in exchange for the higher degree of safety which the preferred offers. From Table II it would appear that the common dividend is well buttressed and that nothing short of a calamity would place the company in a position where the present rate would be endangered. As a matter of fact it is planned, as soon as pending matters in regard to the merger and the sale of distributing lines are settled to place the common on an 8% basis, but it is not probable that that rate will materialize for at least another year.

Public Utility Notes

Adirondack Electric Power Corporation.

—Reports gross earnings in 1916 of \$1,512,516, an increase of \$195,448. Surplus after charges amounted to \$306,864, an increase of \$10,039,000. After providing for the 6% preferred dividends, there was a balance of \$146,828 for the common stock, equivalent to 1.65%.

American Telephone & Telegraph.—Reported for December a net increase of \$135,031.

Baltimore Gas, Electric Light & Power.—Has declared a quarterly dividend of 2% on the common stock, increasing the annual rate from 7% to 8%. At the same time reductions in the price of electric current were announced.

Chicago Telephone.—Stockholders at annual meeting re-elected directors and approved increase of \$10,000,000 in capital stock from \$30,000,000 to \$40,000,000 to meet the company's production requirements. Larger part of new stock will be offered to stockholders at par within six or seven months.

Cities Service.—January earnings broke all former records, being \$1,854,449, compared with \$63,544 in the corresponding month of 1916. For the year ended January 31 last the balance earned in the common stock was equivalent to 41.40%, compared with 16.26% in the preceding 12 months. In the February 17 issue of this magazine, in an article entitled "The Public Utility Holding Co.," a table appeared showing a list of twelve important public utility holding companies. The figures on Cities Service were taken from the 1915 report. The 1916 report shows the company's capitalization as follows: Outstanding debentures, \$75,123; preferred stock outstanding, \$55,128,336; common stock outstanding, \$30,281,388. Dividends on the stock are paid at the rate of 6%.

Detroit United.—Report a balance available for dividends for the 1916 year of \$2,080,792, equal to 16.64% on the stock, as compared with 9.67% earned in 1915.

Great Western Power.—Petition of the Pacific Gas & Electric Co. against this company asking the California Railroad Commission to prohibit the latter from extending its electric distributing lines into Contra Costa county has been dismissed.

Interborough Rapid Transit.—Upon completion of the new subway line, by agreement with the City of New York, is assured of earnings of something like \$16,500,000 annually. Out of this the following payments have first claim, 6% on \$175,500,000 (estimated amount of total debt after subways are completed), and 9% on \$35,000,000 Interborough Rapid Transit stock. The balance approximating \$2,759,000 will be increased by payment from investment to

about \$3,839,000. Allowing for interest on Interborough Consolidated bonds and preferred dividends that would leave a balance of about \$1,100,000.

Keystone Telephone of Philadelphia.—Reports earnings for the year ended December 31, 1916, available for dividends, of \$101,966, an increase of \$27,101.

Mackay Companies.—Report for fiscal year ending February 1, 1917, showed a balance after preferred dividends of \$2,626,465 against \$2,219,200 earned in the previous year. The percentages on the common stock were 6.34% and 5.36% respectively.

New York Railway.—Did not take any action on the payment of interest on the 5% adjustment income bonds at recent meeting.

Northern Ohio Electric.—Declared initial dividend of 1½% on the preferred stock, payable March 1.

Pacific Telephone & Telegraph.—In 1916 showed a surplus, after preferred dividends, of \$225,796, an increase of \$124,196 over the previous year and equal to 1.25% on \$18,000,000 common stock against 0.56% earned on the same stock in 1915.

People's Gas, Light & Coke.—At annual meeting chairman of the board, Samuel Insull, assured the stockholders that there will be no change in the present dividend rate of 6%, but that it will continue to be paid. He said that, unless the City Council gives the company prompt action on its demand for a change from the lighting standard to a heat unit standard in its gas, all negotiations with the city may be called off and the company will appeal to the Illinois Public Service Commission for release. Delay on the committee's part has caused the company a loss of \$5,000,000, he declared.

Philadelphia Company.—Has accepted a compromised offer of the Protective Committee of Preferred Stockholders of the United Traction Company of Pittsburgh, which is expected to settle this controversy. Under the plan now approved, holders of the preferred stock may sell their holdings to the Pittsburgh Railway Co., taking in payment bonds of that company to be guaranteed, principal and interest, by the Philadelphia Company on the basis of 66⅔% of the par value of their stock in the bonds, or they may sell their stock for cash on the basis of \$25 for the \$50 shares. The two propositions place a value of \$75 on the Pittsburgh Railway bonds and the cash offer is made to care for the holders of the United Traction Pfd., who may own only a small amount of the stock.

Third Avenue Railway.—Has declared the full six months' interest due and payable April 1 on the adjustment income 5's. The company is making a rapid recovery from the effect of last year's strike.

Public Utility Inquiries

American Tel. & Tel. Co.

L. R. B., N. Y. City.—American Telephone & Telegraph is one of the highest grade public utility stocks available. At its present price it is not selling at an unreasonably high level, although the price might be affected in the event of serious developments in the foreign situation having an unfavorable influence on the general market. If you are holding the stock as an investment, for income, we suggest that you keep it and eventually you should realize a very handsome profit on it. The dividend is secure.

Federal Light & Traction

K. B. F., Nashua, N. H.—Federal Light & Traction appears to be improving its position quite rapidly. The earnings on the preferred stock for the twelve months ended December 31, 1916, were equal to 5.81% against .42% earned in 1915. For the month of December after gross of \$230,174, there was left for net \$97,789, comparing with \$83,914 in the same month of 1915. The preferred stock is now approaching the time when dividend resumption will be justified and we do not think you should dispose of it now. The reason for its apparent failure to respond more emphatically to the improvement in earnings may be attributed to some extent to the generally uncertain market conditions. There is a very narrow market for the stock and speculative interest has never been aroused in it to any extent.

American Light & Traction

M. B. A., New York City.—American Light & Traction is one of the highest grade public utility investment stocks available, but the wisdom of buying the stock now is doubtful, owing to the uncertainties in the foreign situation, and we do not suggest that you purchase it at this time. The dividend is protected by a large margin of safety, and we do not anticipate that it will be reduced, even under less favorable conditions, but the thing to consider now is the possible influence of a decline in security prices generally, due to serious further complications in our international affairs. It is possible that you might have to pay more for the stock by waiting, but you would at least be able to buy it with more assurance as to the immediate future.

Commonwealth Pr. Ry. & Lt.

W. H. M., Chicago, Ill.—When conditions become favorable again for the purchase of securities, Commonwealth Power, Railway & Light might prove a very desirable investment.

Dividends are now being paid at the rate of 4% per annum, while the actual earnings were 8.80% last year, as compared with 7.42% in 1915, compared with 8.28% earned in 1914, 7.44% earned in 1913 and 6.74%

earned in 1912. The company has pursued a very conservative dividend policy, and it is apparent from its record in recent years that it would be justified in increasing the dividend rate to 5%. Paying 5% dividends and protected by a good margin of earnings the stock should certainly sell higher than \$60 a share.

Columbia Gas & Electric

A. T. T., Baltimore, Md.—Columbia Gas & Electric is not without very attractive possibilities over a period of some years, but we are inclined to the opinion that the stock at its present price discounts the favorable factors of the present and immediate future. We suggest that you place a stop loss order of three points on your commitment and watch your opportunity to get out on any good rally.

United Gas & Electric

M. P. A., Manville, R. I.—United Gas & Electric was placed on a regular 7% per annum basis in April of last year. This dividend is now covered by a good margin of earnings and appears to be reasonably safe. However, the interests of this company are so intricate owing to the fact that it is a holding corporation for utilities which operate in widely scattered territories, that until certain of the subsidiary companies are established in a stronger position the holding corporations' securities must be classed as speculative. If you are a holder of the first preferred stock, and are willing to assume a certain amount of risk, it would probably be advisable for you to keep it, but we do not suggest a purchase at this time, especially in view of the uncertainties in the foreign situation.

Third Avenue Ry.

A. K. E., Montreal, Que.—While earnings for the first half of the current year have been showing an improvement, the strike caused a sharp curtailment of profits, and the present rate of earnings is not sufficient to cover the interest requirements. We believe that it will take the company some time to rehabilitate its finances and be in a position to resume dividend payments.

Under the circumstances it would be extremely inadvisable for you to average on the stock now. In fact, we believe that the best course for you to pursue would be to liquidate your holdings at the first favorable opportunity, while in the meantime you should protect your commitment with a close stop order. In the course of time the Third Avenue company should get substantially on its feet again, but an examination of the past record of the company from the standpoint of earning power does not lend much encouragement for the hope that the stock will be established on a permanent dividend paying basis soon.

Standard Oil's Biggest Competitor

Royal Dutch Co.'s Growth—Backed by Rothschilds—Introduction to the American Investor—Prospects for Company and Outlook for Its Stock

By LAWTON SHEPARD

IN a little more than twenty-five years the Royal Dutch Company has developed into Standard Oil's biggest competitor. Starting as a local enterprise in the Dutch East Indies in 1890, it has spread its business over the Old and New Worlds, carrying on an aggressive fight, at times fiercely, in the big producing and consuming markets of Europe, Asia and the United States.

Backed by the Rothschilds, the Royal Dutch Company has been lavishly financed so that it has been able to make an outstanding record in lean and prosperous years. Its experience in breaking into the California field in this country is typical of its aggression and persistency in this respect. The Shell Company of California, owned by the Royal Dutch Company, spent millions of dollars developing oil fields and building a refinery, pipe lines and storage capacity at a time when the oil industry was in an especially unprofitable condition. This money was spent at a time when it was certain there was no immediate return, but the wisdom of it is now apparent with the return of prosperous conditions in the oil trade on the Pacific Coast. The company now is in an advantageous position to profit to the full extent from the current demand for refined and fuel oil on the Coast.

The Royal Dutch Company's other big interest in the United States is in Oklahoma where it operates through the Roxana Petroleum Company. Much the same policy has been followed there as in California and the company's outlook in the mid-continent field now is unusually bright.

Its other holdings in the Western Hemisphere are located in Mexico, Panama and Venezuela. In addition to its property in the Dutch East Indies, the world-wide extent of this company is

shown by its vast interests in Russia, Roumania, Egypt and Persia. The largest of these holdings are in Russia where the Royal Dutch-Shell interests have been combined with the Rothschild group.

American Investors Interested

The interest of American investors in the shares of this company became active following the introduction in the New York market of 220,000 shares of the common stock through Kuhn, Loeb & Co. This powerful international banking firm bought common stock of the Royal Dutch Company—the official name of which is the Royal Dutch Company for the Working of Petroleum Wells in Netherlands, India—to the amount of 7,400,000 Dutch guilders. This stock was deposited with the Equitable Trust Co. of New York which issued against it certificates for 220,000 "American shares." The par value of the American shares is approximately \$13.50. The Royal Dutch Company's own common stock is issued in shares of Fl. 1,000 and Fl 100. A florin is equal to a Dutch guilder, which is about \$0.402 gold.

This offering, which was made a few months ago, was the first opportunity for American investors to buy into this company and was the result primarily of war conditions. The market previously had been in Amsterdam and Holland. The offering here was due in part also to the growing business of the company in this country.

As previously stated this American business centres in California and Oklahoma. The Shell Company of California has an issued capital of \$33,535,575. It has built a refinery at Martinez, near San Francisco, with a capacity of 25,000 barrels a day. It has storage facilities at Martinez and in the fields for 4,250,000 barrels. The fields and the refinery are

linked by a 170 mile eight-inch pipe line. The Roxana Petroleum Co., the Royal Dutch Operating Company in the midcontinent field, has \$5,000,000 stock. Roxana owns fields in the Cushing, Healdton and Bartlesville districts. It has under construction 140 miles of six-inch pipe line from Cushing to Healdton and 450 miles of ten-inch pipe line from Cushing to St. Louis, to be in operation by the end of 1917. A refinery of large capacity is being constructed at St. Louis.

Low Price of Shares

For a company of the magnitude and financial backing of Royal Dutch these shares are not high. Local prices are three to four dollars a share lower than the Amsterdam market price, because of impossibility of arbitraging at present. At around \$60 a share the yield on investment is better than 10 per cent. This is a far higher basis than the Standard Oil stocks and the leading American independent oil companies are selling at, and it is probable that the difference will be corrected quickly at the close of the war when conditions allow Royal Dutch to resume business in certain parts of Europe which have been shut off by the war.

Dividends paid in the last two years are equivalent to \$6.56 on each American share. It paid 49 per cent. in 1915 and 1914 in semi-annual payments of 15 per cent. in January and 34 per cent. in July. In January of the current year a 15 per cent. dividend was paid, but the American shares do not participate in this dividend, having been sold ex. this dividend.

The dividend record of the company and the price, in per cent. of the common shares on the Amsterdam Stock Exchange since 1902 are shown in Table I.

Marketing the Big Problem

The history of the oil trade shows that the problem of marketing is the important one. There is a big element of risk in developing oil fields. If numerous dry holes are encountered much money is lost. If the field is prolific there is an abundance of oil

and unless it is well controlled by a few companies, prices are low. The refining business is more stable, but even now there is an excess refining capacity in this country in comparison with production. Taking advantage of the position of the refiner and the producer, the marketing company has been able to operate profitably. The ideal of oil companies is to fortify themselves in each branch of the industry—producing, refining and marketing. All the big oil companies have this complete cycle.

Oiling Stations to Supplant Coaling Stations

Marketing of oil has become all the more important in the last year or two through the greatly increased use of oil as fuel in merchant ships and in manufacturing plants. This has made necessary a world-wide distribution of oil, and the oiling station promises to supplant the coaling station in strategic and commercial importance.

It is with this object in view that the Royal Dutch Company is encircling the world with producing fields, refineries and marketing stations. Its object is to make such arrangements as will enable it to meet the demands of consumers by local production, if possible, or by furnishing oil from the nearest district. In this way the company has become more and more independent of freight and transport questions and has benefited the consumer by the resulting economies.

In meeting the world demand for oil, Royal Dutch produced about 33,500,000 barrels of oil in 1916 (see Table II), against 28,400,000 in 1915 and 31,100,000 in 1914. In distributing part of this output the company used a fleet of close to 300,000 tons.

The details of the company's capitalization in the terms of American money are as follows:

Capital	Outstand.	Authorized
Common shares	\$30,361,934	\$48,240,000
4% Preferred shares..	603,000	603,000
4½% cum. prior. shares	11,457,000	11,457,000

The surplus of the company in December, last, amounted to close \$21,500,000.

Details of Growth

When the Royal Dutch Company grew beyond the limitations of the Dutch East Indies, its first international move was the foundation in 1902, in conjunction with the Shell Transport & Trading Co. of London and the Rothschild group, of the Asiatic Petroleum Co. to provide for the distribution of the products of the three associated groups. In subsequent years the company absorbed the principal other companies in the Dutch East Indies. When it had accomplished that, the Royal Dutch amalgamated its interests with those of the Shell. The combined assets of the Royal Dutch and the Shell were turned over to two new companies, the Bataafsche Petroleum Co. and the Anglo-Saxon Petroleum Co. The Bataafsche is a producing company and the Anglo is a transporting and distributing company. The Royal Dutch holds 60 per cent. in these two concerns and the Shell 40 per cent. In addition Royal Dutch owns 12½ per cent. of the outstanding Shell ordinary shares.

TABLE I.

ROYAL DUTCH

Dividend Record—High and Low Prices of Stock (Amsterdam Stock Exchange—1902-1916).

Year	% Dividend	High	Low
1902	24	499	381
1903	35.85	515	415
1904	65	587	435
1905	50	577	305½
1906	73	798	383½
1907	27.75*	{ 906 340†	{ 719 225†
1908	28	324	270½
1909	28	580	426
1910	28	580	399
1911	19	501	406
1912	41	588	444
1913	48	652	556¼
1914	49	639½	487½
1915	49	563½	453½
1916	49	659	500

*After trebling the capital by distributing stock dividend of 200%.

† Ex stock dividend of 200%.

TABLE II.

WORLD'S PETROLEUM PRODUCTION

	1915 Production of 42 gallons	1857-1916 Production in bbls. of 42 gallons
United States	281,000,000	3,600,000,000
Russia	68,000,000	1,600,000,000
Mexico	32,000,000	123,000,000
Dutch East Indies	12,000,000	148,000,000
Rumania	12,000,000	130,000,000
India	7,000,000	80,000,000
Galicia	4,000,000	136,000,000
Japan & Formosa... ..	3,000,000	30,000,000
Peru	2,000,000	16,000,000
Germany	1,000,000	13,000,000
Trinidad	700,000	2,000,000
Argentina	500,000	1,000,000
Egypt	200,000	1,000,000
Canada	200,000	23,000,000
Italy	40,000	800,000
Other	10,000	300,000
Total	*423,650,000	5,904,100,000

*Royal Dutch produced in 1916 a total of 33,500,000 barrels; 1915, 28,400,000; and in 1914 31,100,000 barrels.

Conclusion

From the point of view of the American investor, who can determine from the preceding statements, the worldwide extent and the powerful financial backing of this company, purchase of this stock holds out more promise of satisfactory return than many other oil companies. When the war is over it probably will be found that the influence of the Rothschilds will be able to cause quick recuperation of its business in the troubled parts of Europe. The outlook for the Russian oil companies after the war, if the Entente countries continue in commercial agreement, is particularly bright, and Royal Dutch's biggest single holdings are in Russia. In further continuance of the war, the company's American, Mexican and Asiatic properties are sure to participate in oil trade's prosperity.

In speculation, the greatest and rarest quality is plain horse sense.

The Silver Stocks

Is It Time to Purchase This Class of Securities?—Silver's Speculative Reputation—Price Outlook and Causes of High Silver Quotations.—Warning to Careful Investors

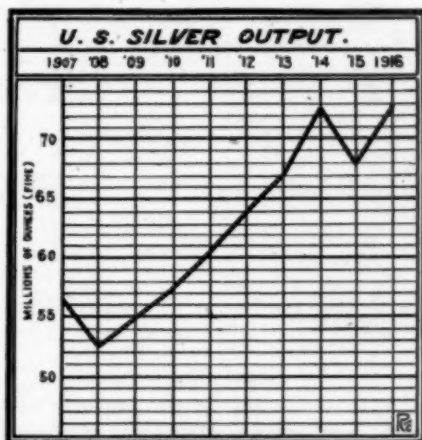
By BARNARD POWERS

SILVER is synonymous with speculation. Since it was first used as money by the ancient Chaldeans and, according to some authorities, by the Lydians, it has shared honors with gold as a medium of exchange. A fact not generally known is that gold was at one time demonetized by Austria and silver was left as the standard of value. This was in the early fifties, following the discovery of gold in California, when wild tales of enormous gold discoveries came to the ears of Austrian financiers. Most readers recall well the "16 to 1" silver campaign of a quarter of a century ago and the famous "cross of gold" speech of William Jennings Bryan. The agitation to set up a silver standard has died down all over the world and nations of first rank have, without exception, adopted the gold standard. Silver has its place in the arts and as a medium of exchange, but in all probability will never again become a formidable competitor with gold as a monetary standard.

The war, however, has brought silver very much into the limelight. Recently silver reached 79c. an ounce, which represents the highest level since 1893 when purchases by the United States Government forced the price to \$1.24 an ounce. At this writing it is selling at around 78c. an ounce, having reacted from its high level. The tabulation which accompanies this article shows the average price of silver for the last twenty-four years as reported by the Geological Survey and the estimated 1916 average price. The low price for 1916 was 56.7c. per ounce reached in February and the high price 77¼c. touched in May.

There are many factors affecting the price of silver at the present time. In the last issue of THE MAGAZINE OF WALL STREET, Mr. Edward Brush, of the

American Smelting & Refining Co., in an exclusive interview summarized those



factors. Briefly, the three most important are: (1) The cutting off of Mexican production which in ordinary times is the largest for any one country in the world; (2) the large demand from the belligerent governments for coinage purposes and to replace the drainage of gold, and (3) the heavy demand from India resulting from that country's great prosperity.

In regard to the demand on the part of the warring nations, for instance, the requirements of Great Britain are reported to be seven times the normal demand. The important point in connection with silver at the present time is, of course, whether the price of the metal has seen its high-water mark or whether it will go higher. On this point there is no unanimity of opinion. Many good authorities on the metal consider that it is quite high enough, while others equally well informed do not hesitate to predict

\$1 an ounce within the next six months. So that silver at the present time is living well up to its speculative reputation.

AVERAGE SILVER PRICES FOR LAST 24 YEARS

1893	.78
1894	.63
1895	.65
1896	.68
1897	.60
1898	.59
1899	.60
1900	.62
1901	.60
1902	.53
1903	.54
1904	.58
1905	.61
1906	.68
1907	.66
1908	.53
1909	.52
1910	.54
1911	.53
1912	.615
1913	.604
1914	.533
1915	.505
*1916	.756

*Estimated.

The Silver Stocks

The boom in silver metal would seem to connote a boom in the stocks of the silver producing companies. There has been no boom as yet, however. On the contrary, while the stocks of some of the silver producing companies have shown appreciation, the majority are selling below last year's high prices. Why is this?

The answer seems to be the lack of confidence of the investing public in the silver producing stocks. And it must be said that by and large this lack of confidence is the result of bitter experience.

In the first place silver is produced largely as a by-product of copper, lead, zinc, etc. The largest producer of silver in the United States is the Anaconda Copper Co., which last year produced in the neighborhood of 9,000,000 ounces of the white metal. The following table gives some of the large companies which produce silver as a by-product from their own ores:

	Silver Out- put in 1915 Ounces
Anaconda	8,064,986
Butte & Superior	3,985,090

Phelps, Dodge	1,388,419
Calumet & Arizona	1,381,078
Fed. Min. & Smelt.	983,830
North Butte	940,632
Hecla Mining	692,444

The American Smelting & Refining Co. from its operations in 1915 turned out upwards of 76,000,000 ounces of silver and the United States Smelting Refining & Mining upwards of 12,000,000 ounces, but both of these concerns, as their names indicate, are handlers of ore not originators of production.

There is no "leader" among the silver stocks like Anaconda or Utah among the coppers, U. S. Steel among the steel issues or Union Pacific, Southern Pacific or Reading among the railroads. Silver veins are usually narrow, hard to work and comparatively short lived. There are some notable exceptions—mines that have been operated for years, but usually in such instances, there has been no necessity of offering shares to the public, and when an old producing property is "floated" on the exchange it is more than probable to assume that the "insiders" are beginning to consider getting out of their holdings while the getting out is good.

The yield column in the table accompanying this article giving the important statistics on some of the silver stocks most in the financial eye at the present, indicates what an unstable class of securities the silver stocks are. Ordinarily 10 per cent. is considered a fair return on a mining investment, but the table shows that of the silver stocks mentioned, only a few make anywhere near such a yield while many yield more than 20 per cent. on their market prices.

Dividend Returns

Glancing at the last column it will be perceived that in proportion to their capitalization many of these silver companies have paid handsomely—Nipissing and Ontario Mining having paid nearly \$15,000,000 in dividends, while Tonopah Mining has paid nearly \$14,000,000. But these successful companies represent a very small percentage of the vast number of silver mining stocks which have been unloaded on the gullible public in the last twenty years and doubtless the money lost in purchasing these stocks

exceeds the profits of silver mining by many times over. Silver is an extremely elusive metal, as often as not the "insiders" have no adequate conception of the value of their properties. Nipissing was produced a failure only to prove a big success and more recently the McKinley-Darragh property which was thought to be on its last legs received a new lease of life by encountering unsuspected and rich ore on one of the lower levels.

tion the time to buy coppers to put away is not when copper is selling close to 40c. a pound, and the time to buy silver stocks is not when the white metal is selling at high record prices, unless one goes into such transactions on a wholly speculative basis.

If one holds with those who believe that the metal is bound for still higher levels the best way to do would be to buy the actual silver from one of the many metal brokers which specialize in

IMPORTANT STATISTICS ON LEADING SILVER PRODUCING COMPANIES

Company	Location	Capital	Par	Shares Out	Div. Rate	Rec. Price	Yield P. C.	Tot. Divs. Paid
Batopilas	Mexico ...	\$9,000,000	\$20	446,599	...	\$1.50	...	.....
Beaver	Cobalt ...	2,000,000	1	2,000,000	*	.48	...	\$649,196
Coniagas	Cobalt ...	4,000,000	5	800,000	25c. q.	4.20	23.8	8,002,400
Jim Butler	Tonopah ..	2,000,000	1	1,718,021	10c. s.-a.	.81	24.6	515,406
Kerr Lake	Cobalt ...	3,000,000	5	600,000	25c. q.	4.75	21.0	6,720,000
McKinley-Dar.Savage	Cobalt ...	2,500,000	1	2,247,692	3c. q.	.53	22.6	5,011,352
Nipissing	Cobalt ...	6,000,000	5	1,200,000	25c. q.	8.25	12.1	14,990,000
N. Y. Honduras.....	Honduras .	2,000,000	10	200,000	50c. q.	14.50	13.7	4,190,000
Ontario	Utah	1,500,000	100	150,000	...	6.12	...	14,932,500
Temiskaming	Cobalt ...	2,500,000	1	2,500,000	3c. q.	.60	20.0	1,684,000
Tonopah Belmont	Tonopah ..	1,500,000	1	1,500,000	12½c. q.	4.50	11.1	8,765,014
Tonopah Extension.....	Tonopah ..	2,000,000	1	1,272,700	15c. q.	4.25	13.8	1,782,678
Tonopah Mining.....	Tonopah ..	1,000,000	1	1,000,000	15c. q.	6.25	9.6	13,600,000
West End.....	Tonopah ..	10,000,000	5	1,788,486	‡	.66	...	625,848

* Last dividend 3c., Sept., 1916.

‡ Last dividend 5c., Oct., 1916.

In investing in stocks of these sort the average investor has hardly more than the hazards of blind luck in his favor and unless he has some special and accurate knowledge from those who are in a position to know exactly what is happening within a company, he would do well to turn his attention to other less elusive media of speculation.

Conclusion

Generally speaking, then, the silver issues are not adapted to the purpose of the careful investor, although they may contain considerable speculative possibilities at the present time. As has been pointed out many times by this publica-

this metal. Before the war it was possible to buy 30, 60 and 90 day warrants on the London Metal Exchange, but the British government has put a stop to trading in silver futures. There is no established market for futures in this country, but a prospective purchaser, by application and personal negotiation with silver brokers in this country, could undoubtedly arrange to purchase "future" silver at a price, and probably arrange to have the metal "carried" by putting up the margin required and making the necessary arrangement for storage, insurance and the other requirements of the transaction.

THRIFT

Great as is the value of thrift from the point of view of economics, yet its value is not limited wholly to that field. The training afforded by its practice calls for the exercise of qualities that are predominantly moral in their character. Thrift means self-control. It means self-mastery. It means that we must learn to forego immediate pleasure for the sake of some more distant good.—F. C. Mortimer.

Oil Notes

Atlantic Refining.—Financial statement for 1916 showed total profits of \$9,628,256, which was at the rate of 192.56%, against 111.84% in 1915, the previous high record in the company's 46 years of operation.

Chesebrough Manufacturing.—For the purpose of compiling income tax report on stock dividend declared during 1916, announces that the stock dividend of \$1,000,000 issued on June 1, 1916, represents and has been charged against part of the surplus of the company earned prior to March 1, 1913. The regular quarterly dividend of 3% and the usual extra dividend of $\frac{1}{2}$ %, payable March 19, have been declared.

Cosden Oil & Gas.—Declared the regular quarterly dividend of $1\frac{3}{4}$ % on the preferred stock, payable March 1. It is expected that the dividend on the common stock will be increased at the next meeting.

Crescent Pipe Line.—Earned \$193,072 equal to 6.43% on the stock for the 1916 year, against 6.24% earned in 1915.

Federal Oil.—Report of development work during 1916 shows that the company owns 980 acres in the Irvine Field, Ky., which surpassed all expectations in its productiveness during 1916. About 150 wells can be located on the property, from which it is estimated that 3,000,000 to 4,000,000 barrels of oil can be produced in the first three years.

Houston Oil.—Is reported to have won in the Texas Court of Appeals the suit by the State for the forfeiture to the State of about 88,000 acres of land, and the recovery of damages for a large sum of money.

Indiana Pipe Line.—Reports net earnings for the year ended December 31, 1916, of \$1,300,836, equal to 26.01% on \$5,000,000 capital stock, compared with 25.42% earned in 1915.

Midwest Oil.—Has declared an extra dividend of 2c. a share on the preferred stock on account of accumulated dividends. The dividend is payable March 1 to stock of record February 15.

Ohio Oil.—Increase in capitalization from \$15,000,000 to \$60,000,000 has been held up by rulings of the attorney general of Ohio who has directed that the application of the company to make the increase be refused.

Oklahoma Producing & Refining.—Reports for year ended December 31, 1916, earnings of \$348,959 before providing for depreciation. Dividends amounting to \$197,782 were paid during the year, leaving a surplus of \$151,157. At the annual meeting stockholders approved of an increase in the capital stock from \$5,000,000 to \$10,000,000.

Royal Dutch Petroleum.—Shell Transport & Trading Co., Limited, which is closely allied with the Royal Dutch Company, has announced that the oil production owned and controlled by the Royal Dutch com-

bination amounted in 1916 to approximately 33,500,000 barrels, as compared with about 28,400,000 barrels in 1915.

Sapulpa Refining.—New management, it is estimated, will save an average of about \$30,000 a month as a result of economy of operation.

Sinclair Oil & Refining.—Has retired \$18,370,500 of its \$20,000,000 10-year 6% bonds, which were issued less than a year ago. The company has purchased, it is understood, four tank steamships at an estimated cost of \$5,000,000 to be used for the present coastwise trade and for transatlantic business when conditions permit.

South Penn Oil Company.—Has voted to increase its capital to \$20,000,000, the new stock to be issued as a 60% dividend to holders of record February 14.

Standard Oil of California.—Announces that the commissioner of internal revenue has ruled that of the January 18, 1916, stock dividend only 18.0743% is returnable for income tax purposes. The financial statement for 1916 shows net profits of \$21,263,520 as compared with \$12,974,655. The balance available for dividends was \$17,605,304 as compared with \$9,529,946 in 1915, being equivalent to 23.6% on \$74,529,983 capital stock outstanding at the close of 1916 and at the rate of 17.6% on \$100,000,000 capital which will shortly be issued.

Standard Oil of Ohio.—Has declared the regular quarterly dividend of \$3 a share and an extra dividend of \$1, payable April 2. The company announces that the stock dividend of \$3,500,000 was declared out of surplus of \$4,040,345 existing on December 31, 1912. This announcement has been made for the purpose of compiling income tax report on stock dividend declared during 1916.

Tidewater Oil.—Has increased its capital stock from \$30,000,000 to \$40,000,000 and will distribute \$2,900,000, or 10% of the old stock outstanding as a stock dividend. Stockholders have authorized an increase of capital stock from \$30,000,000 to \$40,000,000, of which \$10,000,000 new stock \$2,900,000 will be distributed as a 10% stock dividend, payable to stockholders of record February 28. The company showed net earnings in 1916 of \$15,475,410 and after deduction of \$3,452,703 for depreciation there remained a balance for dividends of \$11,022,708, equal to slightly better than 38% on the stock and compared with 17.8% earned in 1915.

Wayland Oil & Gas.—Has declared a dividend of 2% on the common stock, payable March 10 to stock of record March 1. The company earned in 1916 a gross of \$411,066 against \$304,407 in the previous year. Net earnings were \$173,704 against \$115,264 or 11.60% on the \$1,500,000 common stock against 7.50% in 1915.

Oil Inquiries

Standard Oil

A. C. F., Somerville Mass.—It is inadvisable for a woman to endeavor to invest her money to return 7% at this time particularly, unless she is willing and can afford to take some risk with it. The Standard Oil stocks are good investments to hold for a long pull, but the cash returns are not large as a general rule. In buying the Standard Oil stocks one must look for market enhancement and stock dividends rather than cash dividends.

South Penn Oil

A. B., Chicago, Ill.—South Penn Oil is selling ex-stock dividend of 60%, which was payable to stockholders of record February 14. If you are a holder of the stock, therefore, you should receive 60% in new stock. In other words, you have new stock which is worth less per share than the old stock, but you have more of the new stock.

Sapulpa Refining

H. J., Columbus, O.—Sapulpa Refining is a fairly substantial organization, but we favor the stock less than we do that of some of the other independent Oklahoma oil companies. It would be good policy, we think, for you to close out your commitment on any good rally in the near future with the idea of putting your money into some of the other oil stocks like Cosden Oil & Gas or Oklahoma Producing & Refining, although we do not advise fresh commitments in these stocks at this time, owing to the uncertainties in the foreign situation.

Midwest Oil

H. McC., Newark, N. J.—The back dividends on Midwest Oil preferred have not been cleared up as yet, but it is expected that the payment on March 1 will clear these up. The common will then be in line for dividends. The common stock has attractive, speculative possibilities, but the company's position is somewhat uncertain because a large part of its holdings are in litigation with the Government and with other companies.

Standard Oil of N. J.

I. T., Syracuse, N. Y.—Standard Oil of New Jersey should eventually prove profitable if purchased at this price, but the company has large foreign interests, particularly in Germany and Roumania, and it does a tremendous export business. Consequently its position is such that any untoward developments in the foreign situation would probably have a serious effect on the market value of the stock, and it would be inadvisable under such circumstances to buy it now.

Borne-Scrymser

S. W. R., Roanoke, Va.—Borne-Scrymser has never published a balance sheet, and its affairs are so closely guarded that the public has no opportunity to learn much about them. It is impossible for us to say why the company has never declared a stock dividend. So far as we know its affairs are ably managed and the company is sharing in the general prosperity of the oil industry. The fact that the stock is selling at its present price certainly foreshadows the payment of a stock dividend sooner or later.

Texas Co.

A. K., Wellsboro, Pa.—Texas Company pays regular cash dividends of 10% per annum, but the company has distributed the equivalent of many extra cash dividends to stockholders in the last few years in the form of rights to subscribe to new stock at par. It will probably continue to follow out this policy, so that holders of the stock should be able to count on a larger yield than is indicated by the dividend rate of 10%. The stock is a splendid speculative investment, and we think that eventually it will sell at a great deal higher market price, but we do not suggest its purchase now owing to the uncertainties in the foreign situation. The Texas Co. has important foreign interests and is a large exporting company.

Barnett Oil

D. G., Kenosha, Wis.—Barnett Oil & Gas has recently acquired some additional holdings in the Irvine (Kentucky) field, according to published reports. It is stated that the company intends to go ahead with development work on these properties and expects that the result will greatly add to its earning power. The Irvine field, as you possibly know, has been one of the most sensational of the newer oil fields during the past year. The indications are that this field will continue a prolific producer for some time to come yet, but there is no certainty as to whether the holdings of the Barnett company will make a good showing.

This stock is a speculation and as a speculation has some possibilities, but we do not recommend that you hold it unless you are willing to assume a certain amount of risk.

Sinclair Oil

V. B., Bridgeport, Conn.—Sinclair Oil certainly does not rank with Texas Co. Sinclair is a new company and untested. While its earnings are now running at a remarkably high rate on the stock there is no certainty that they will be maintained. On the other hand, the Texas Co. has a record of consistent and steady gains in earnings over a series of years which entitles its dividend to be regarded as sure.

Mining Digest

Adventure.—Is shipping about 150 tons of rock daily, and it is said that the rock is running 16 to 17 pounds of copper per ton.

Ahmeek Mining.—January production amounted to 2,411,329 pounds of copper.

Nipissing.—Production in December is estimated at \$228,698, showing a profit of \$195,989.

Alaska Gold.—Reports for January 173,300 tons of ore treated as compared with 196,495 tons in December. Extraction was 81.95% as compared with 81.54%.

Allouez Mining.—January production amounted to 351,413 pounds of copper.

Anaconda.—Produced in January 28,250,000 pounds of copper, compared with 29,000,000 in December and 25,500,000 pounds in November, 1916.

Calumet & Hecla Mining.—January production was 6,576,868 pounds of copper.

Cerro de Pasco Copper.—Declared the regular quarterly dividend of \$1 a share and an extra dividend of 50c. The company has listed on the New York Stock Exchange 656,666 shares of an authorized issue of 1,000,000 shares of capital stock without par value, with authority to add the remaining shares in exchange for \$1,000,000 convertible 6% bonds. Consolidated income account shows that receipts from sales of copper, silver, gold and ores from January 1 to October 31, 1916, amounted to \$19,718,164. Current assets as of October 31, 1916, totaled \$9,607,465 and current liabilities \$1,844,939. Surplus on the same date amounted to \$14,437,499. Earnings of the company are now estimated to be running at the rate of \$15 a share per annum after interest charges. Production is running at the rate of 74,000,000 pounds per year compared with 61,000,000 pounds in 1915.

Chief Consolidated.—The 1916 report shows receipts of \$1,601,903. There were shipped 83,606 tons of ore carrying 8,331 ozs. gold, 1,739,004 ozs. silver, 18,356,937 lbs. lead, 1,795 lbs. copper and 790,825 lbs. zinc.

Chile Copper.—Production in January was 7,756,000 pounds as compared with the December output of 6,636,000 pounds.

Chino Copper.—In 1916 earned a balance for the stock of \$12,843,222, equal to \$14.76 a share on 869,980 shares, compared with \$7.67 a share earned in 1915.

Consolidated Interstate-Callahan Mining.—Reports for quarter ended December 31, 1916, balance for dividends of \$747,131, as compared with \$405,726 for the previous quarter.

Copper Range.—Net earnings for 1916 were \$6,078,189, compared with \$3,564,762

in the previous year, and were equal to \$15.40 a share in 1916, compared with \$9.27 a share in 1915.

Granby Consolidated.—Blister copper turned out from the two smelters during the calendar year 1916 amounted to 44,702,164 pounds against 40,670,598 pounds in 1915. There was a drop of nearly 1,000,000 pounds in December's copper yield from the previous month's total due to the failure of equipment companies to make deliveries as promised of parts essential to the full operation of the new auxiliary power plant.

Greene-Cananea.—Produced in January 5,700,000 pounds of copper and 156,690 ounces of silver, as compared with 3,348 pounds of copper and 113,691 ounces of silver in January, 1916.

Cresson Consolidated Gold Mining & Milling.—Net profits on ore reserves as of January 1 amount to \$4,166,619. For the 6 months ended December 31, 1916, the amount produced was 40,536 tons of ore with net value of earnings to the company of \$929,723, and for the same period new ore has been developed amounting to 46,079 tons of a net value of \$1,028,410. This addition of new ore does not in any way take into consideration numerous other new openings of ore which have not been developed on three sides. As of February 8, the company had cash in bank of \$1,051,849 and in addition about 90 tons of ore in transit and at the mill of an estimated net value of \$80,000.

Federal Mining & Smelting.—Declared a quarterly dividend of 1¼% on the preferred stock, payable March 15 to stock of record February 28, this being an increase of ¼% over the last previous quarterly dividend.

Franklin.—Work of reopening No. 2 shaft is proceeding satisfactorily.

Hollinger Consolidated Gold Mine.—In the four weeks ended with Dec. 31, earned a gross profit of \$325,007, \$21,943 less than the 1% required to meet the dividend. It is reported that the directors have under consideration the reduction of the existing dividend by one-half, which will make the rate 6½% per annum.

Kerr Lake Mining.—In January produced 215,206 ounces of silver, compared with 190,160 ounces in December and 215,840 ounces in November.

Keweenaw.—Continues to mill approximately 220 tons of rock every day, running the mill 16 hours a day, according to advices from the mine. Development work at the mine has been of a most satisfactory character, and it is likely that as soon as the mill is ready the desired quantity of rock can be shipped.

Miami Copper.—Production costs in 1916 despite higher wages were only 8.95c. per pound, as compared with 8.72c. in 1915 and 9.2c. in 1914. An analysis of the Miami Copper Company's affairs states that contracts covering the sale of 40,000,000 pounds of copper from this year's production have been closed, an amount representing about two-thirds of the company's minimum productive capacity for 1917. The average price received for the metal will be 28 cents. On 24½ cent copper, the average price received in the year previous, the company earned a surplus of about \$8,000,000 while production stood at 53,000,000 pounds. Figured on the advance sales for 1917 at 28 cents a pound, it is estimated that Miami's net profits this year will approximate \$11,250,000.

Michigan Copper.—Is still opening copper ground, though the showings are not quite so brilliant as in the past.

Mohawk.—Work on construction of new stone and steel blacksmith and machine shop has been temporarily discontinued because of delays in receipt of materials and supplies needed.

Mother Lode Copper Mines Co.—Company report for year ended December 31, 1916, gives ore reserves as 114,328 tons containing 17,770 tons of copper and 468,074 ozs. of silver.

New Cornelia.—New leaching plant is expected to be ready for operation much before schedule, it being now 90% finished.

St. Joseph Lead.—In 1916 earned a balance after charges of \$4,674,467, as compared with \$3,489,964 in 1915, equivalent to

33.16% on the stock, as compared with 24.75% earned in 1915. An extra dividend of 50c. a share has been declared from the reserves for amortization. This is in addition to the regular quarterly dividend of 25c. a share, payable March 20. It is understood that preliminary steps have been taken to merge one or more of subsidiary companies into the St. Joseph Lead Co., thereby eliminating extra expense entailed in management and avoiding duplication in the payment of taxes.

Tamarack.—Produced in January 588,328 pounds of copper. Special stockholder's meeting has been called for March 16 to vote upon the question of selling the company to the Calumet & Hecla.

Tonopah Ore.—Production for week of February 10 was 9,261 tons of an estimated value of \$166,698, as compared with 10,094 during previous week. The producers were: Tonopah Belmont, 2,863 tons; Tonopah Mining, 1,900; Tonopah Extension, 2,380; Jim Butler, 850; West End, 429; Rescue, 190; Halifax, 214; Montana, 352; McNamara, 53; Midway, 30 tons.

United Verde Extension.—Reports for 1916 gross revenue from ore produced of \$9,749,918 and total revenue of \$9,981,072. Balance for dividends was \$6,938,100.

Utah Copper.—Reports for quarter ended December 31, 1916, net profits of \$8,503,926, as compared with \$5,771,282 in 1915. The indicated earnings for the full year 1916 were \$39,738,674, as compared with \$17,366,747 in 1915, equivalent to \$24.46 a share on 1,624,490 shares outstanding, compared with \$10.96 a share in 1915.

SUGGESTIONS IN REGARD TO INQUIRIES

The very heavy volume of inquiries which this publication is now receiving makes it necessary to ask our subscribers to co-operate with us in order that we may maintain and improve the high quality of service which the Investors' Personal Service Department renders to our readers. We therefore suggest that:

(1) Not more than two or three inquiries be asked at one time. Occasionally a subscriber sends in a long list of securities asking for an opinion on each. The careful manner in which the Investors' Personal Service Department handles its inquiries makes it impossible to give such inquiries the immediate attention necessary, without slighting other inquirers.

(2) Write all inquiries on separate sheets of paper, which should bear the writer's name and address.

(3) Enclose stamps or stamped and addressed envelope.

The above suggestions are drawn up for the benefit and protection of our readers and those inquiries which conform with them will receive first attention.

When a reader wishes a special investigation or a special analysis of a security or a subject we will be pleased to submit an estimate of the special charge for such work.

Mining Inquiries

Magma

B. T. O., Detroit, Mich.—Magma Copper has declined, it is true, but that decline has been in sympathy with the general set back in copper stocks, and has had nothing to do with the complexion of this company's affairs. The point about Magma is that if the expected ore body is encountered at lower levels, the available tonnage added to its holdings will undoubtedly make the stock more valuable intrinsically. The article on Magma in the November 11th issue, which you refer to as having read, fully explains the situation, so we think there is no need of our going into details. Will only say that we can reassure you that Magma should eventually prove profitable.

Anaconda Copper

J. A. R., Mount City, Ills.—Anaconda Copper is undoubtedly one of the best of the copper stocks, and if purchased at its present price as an investment to hold through a period of years, the returns would probably warrant the amount of the investment. Nevertheless, we expect that Anaconda will sell much below its present level within that time and we do not consider this an opportune time to purchase or hold the stock.

Chile Copper

L. G.—Chile Copper has what is regarded by many mine experts as the richest copper property in the world. When the property is fully developed it will undoubtedly be a big earner, and in time the stock should be worth very much above its present market price. However, the advisability of holding it now as a permanent investment, with the prospects that it will be a very long time before you receive any return on your money, is doubtful. In fact, we look to see the stock sell considerably below its present level before it is permanently established on a higher basis and is paying dividends.

Tentative plans have been made for a new bond issue by the company, and we believe if the additional bonds are issued the effect on the stock will be unfavorable. The amount of the bond issue proposed is \$35,000,000, which would bring the total bonded indebtedness of the company up to \$50,000,000 and the total capitalization up to \$145,000,000.

Miami Copper

W. B.—Miami Copper is selling on a speculative, rather than investment, level at present. While the stock may go higher there is every reason to suppose that it may be purchased to more advantage if one is willing to wait.

The same holds true of International Nickel. The present prosperity of both these companies must be considered abnormal, and it is not likely that their current large earnings nor their present dividend payments can be maintained in the next

period of depression, provided, of course, this current period of prosperity does not continue for a long time to come.

Isle Royale

M. S.—Isle Royale is a low-grade mine, but shows itself capable of earning substantial profits. A more efficient system has been put in at the mines and is expected to increase the output still further. At present the production of copper in this mine is limited only by its small mill capacity. The mine is producing 3,200 tons of rock daily, and it is expected that production will be increased to 4,000 tons. In addition to the maintenance of the largest production in its history Isle Royale continues to keep the advanced openings further ahead than ever before. Large ground reserves are maintained and necessary and with a still larger output in prospect profitable operations for many years to come are confidently anticipated. Although we are not bullish on the copper stocks generally for the long pull, if you hold the stock as an investment purely you should keep it for the present.

St. Mary's Mineral Land

A. K. G.—St. Mary's Mineral Land has declared another dividend of \$2 a share, payable this month. The last previous dividend of \$2 was paid in December. As you doubtless know, the dividends of this company have been declared at irregular dates, but they have been sufficiently large to return a very handsome yield to stockholders who bought the stock any time since the article you refer to in the *MAGAZINE OF WALL STREET* appeared. The Champion Copper Co. is paying dividends regularly, half of which goes to the St. Mary's Mineral Land Co. through their 50% control of the stock. The company would be in a position to show good earnings on low-priced copper, but of course in a depressed copper market there are other considerations besides price which enter into consideration, such as the reduction in output and sales, etc. We do not maintain that St. Mary's Mineral Land will not sell lower, but the stock is one of the most attractive speculative investments to hold for a long pull, say 5 or 10 years, that is available, and if you hold the stock outright we recommend that you keep it.

Iron Blossom

L. R. G., New York City.—Iron Blossom is in a rather favorable position now, due to the strength of the silver metal and the prospect that the price will remain high for several years at least following the close of the war. The wisdom of averaging up on your commitment now, however, is open to question, and we simply suggest that you hold what you have and wait at least until the foreign situation becomes more settled.

Unlisted Security Notes

Ætna Explosives.—Stockholders have formed a protective committee to look after their interests, the purpose of which is to thoroughly examine the company from all angles and to put into effect whatever changes may be necessary to place the company on its feet from an operating standpoint. The committee has asked for deposit of stock from all stock shareholders in order to have their full co-operation within a week or ten days, and an audit of the company's books for 1916 should be completed. This will furnish a photograph of the company's financial state.

Atlantic & Pacific S. S. Co.—The report of the company for the year ended December 31, 1916, shows a net profit from voyages, etc., of \$2,458,204, an increase of \$1,841,937 over the previous year, after deducting interest on bonds, dividends, etc., and a balance of \$505,804, an increase of \$482,937 over the previous year and equal to 33.72% on the \$1,500,000 of common stock, against 1.52% in the previous year.

Atlantic Steel Co.—The company's report for January shows revenues of \$114,550; reserve and interest, \$5,000; surplus, \$109,550.

Brill, J. G.—For 1916 earned a balance for dividends of \$1,329,393, as compared with \$1,431,181 in 1915.

Central Dairy Co.—On Feb 28 this company will hold a meeting to vote on increasing its stock from \$600,000 to \$1,000,000.

Chevrolet Motors.—Daily output is now over 400 cars, and in recent week the average has been close to 2,500 cars. Beginning with March their manufacturing schedule calls for 540 cars a day, and before Spring this figure is expected to be 600 cars.

Chicago Telephone Company.—Stockholders have approved an increase of \$10,000,000 in the stock of this company, making the total stock \$40,000,000.

Cleveland Worsted Mills Co.—At the annual meeting of stockholders the net earnings of the company were reported as being \$843,434, which is equivalent to about 15% on the \$5,707,700 stock outstanding.

Cresson Consolidated Co.—This company, according to a statement sent out by the president, has more than a million dollars in the bank and ore in transit valued at \$80,000. The company produced for the six months ended Dec. 31, 1916, 40,536 tons of ore on which the company realized net earnings of \$929,723.

Federal Motor Truck Co.—For the year ended Dec. 31, 1916, the gross sales of the company amounted to \$4,261,009, an increase of \$1,307,503 over the previous year, and net profits of \$680,615.

Gossard Co., H. W.—For the six months ended Dec. 31, 1916, the company's gross sales amounted to \$1,351,030, with net profits of \$120,635. The net tangible assets are over \$255 per share of preferred stock and \$31 per share on the common stock.

Manufacturers' Light & Heat Co.—For the year ended Dec. 31 last, the company reported gross earnings of \$7,592,225; a net income of \$3,123,515 and a surplus after dividends of \$242,810.

National Candy Co.—This company has declared a dividend of \$1.50 per share on its common stock, being the first declaration on this issue since March, 1911, when a dividend of 1% was declared. The company's report as of December, 1916, showed a surplus of \$1,644,022, and total assets and liabilities of \$11,304,121.

Ohio Oil.—Capitalization increase is being held up by the Attorney-General of Ohio, who rules that under the Ohio laws the company cannot make the increase from \$15,000,000 to \$60,000,000 by increasing the par value and not increasing the number of shares. The application of the company, therefore, has been refused.

Quaker Oats.—Has purchased Canadian Flour & Cereal Mill Co. plant at London, Ontario, and will start operating the mill at once to supply the Canadian trade. The Quaker Oats Co.'s own plant at Cedarboro, Ontario, was recently destroyed by fire.

St. Joseph Lead Co.—This company on Dec. 31 completed its most successful year, their balance sheet showing earnings of \$8,004,649 after providing for depreciation of equipment and plant.

Standard Oil of New Jersey.—Declared the regular quarterly dividend of 5%, payable March 15 to stock of record Feb. 20.

Scovill Manufacturing.—Annual report for year ended Dec. 31, 1916, shows net earnings of \$13,403,462, equal to \$268 a share.

Wright-Martin Aircraft.—The company is starting production of its aeroplane motor, said to be the best motor for this service which has yet been developed. The company has on its books an initial order for 400 of these motors for France. The company will probably complete the order in about five months. The capacity of the company's plant is equal to about 3,000 motors a year, but it will be a matter of between six months and a year before the maximum productive capacity can be attained. It is understood that the company has entered into important negotiations with the United States Government. As a result it is learned that the Government may commandeer the 450 Hispano-Suiz aeroplane motors in process of manufacture by the Wright-Martin Corporation for the French Government.

TOPICS FOR TRADERS

What Is Speculation?

A Clear and Distinct Difference Between Legitimate Stock Speculation and Gambling

By THOS. L. SEXSMITH

DURING the year 1916, and especially during the latter half of the year, a vast new army of people was attracted to the stock market for the first time, perhaps. Also, many who had in past year been interested in the market, but had allowed their interest to become dormant, again returned to active participation in the market. All in all, the year was one of the most remarkable in the market's history, a new peak for the average price of industrials being made, and total dealings compared favorably with the best years in the past.

The stock market fulfills an important economic function. The Stock Exchange itself is simply an organization of individuals established for the purpose of mutual helpfulness, and its chief purpose is to provide adequate facilities for the sale and exchange of approved securities. Because of the excellence of the facilities for trading afforded by the Exchange, and the willingness of large lenders of capital to cooperate with brokers, it is possible to buy or sell stocks listed on the Exchange on a marginal basis, as well as for cash.

There can be no doubt but that the practice of marginal trading is responsible for a very large percentage of the total business conducted on the floor of the Stock Exchange daily. If the average margin requirement is twenty points per share, then for two thousand dollars in margins an operator can trade in one hundred shares of stocks. If he were compelled to buy these shares outright he would have to employ anywhere from seventy-five hundred to fifteen thousand dollars capital, depending on the current price quotation for the stock dealt in.

From this may be seen the possibilities for increasing the total turn over of stocks afforded by the practice of dealing on margins.

It is pertinent, then, in the fact of the new public participation in the market on a grand scale, which participation admittedly was largely on a marginal basis, to inquire what were the motives of this new public on its entry into the market, and what was its understanding of its own position in the economic sense. The answer to the first part of the inquiry is easy: to make money, and in a comparatively short period, perhaps, was the intent of the majority if not all who "came in" last Fall. The answer to the second part of the question is more difficult.

Speculation Is Not Gambling

An unknown writer on the subject asked the question: "Is there any difference between speculation and gambling?" and proceeded to answer it as follows: "The terms are often used interchangeably, but speculation presupposes intellectual effort; gambling, blind chance. Accurately to define the two is difficult; all definitions are difficult. Wit and humor, for instance, can be defined, but notwithstanding the most subtle distinction, wit and humor blend, run into each other. This is true of speculation and gambling. The former has some of the elements of chance; the latter some of the elements of reason. We define as best we can.

"Speculation is a venture based upon calculation. Gambling is a venture without calculation. The law makes this distinction; it sustains speculation and condemns gambling. All business is more

or less speculative. The term speculation, however, is commonly restricted to business of exceptional uncertainty. The uninitiated believe that chance is so large a part of speculation that it is subject to no rules, is governed by no laws. This is a serious error."

Popular Impression of Traders

The popular idea of a "stock gambler" is one who trades in stocks on margin. This seems to be firmly rooted in the prejudices of those who do not deal in the market. Those who hold this view would not think of applying the same term to one who always bought outright, paying for his purchases in full. Yet the actual difference between the two classes of operators is in degree and not in kind. Both may be "taking a chance," having no better reason for making the commitment than the receipt of one of the many obscurely originated "tips" which are constantly passing by word of mouth and through broker's letters and other channels around the Street. Both are open to large loss; one can lose all at stake quickly, and has the more to gain, the other can lose all eventually, and expects a relatively smaller gain.

The Distinguishing Difference

The man who knew absolutely nothing about any line of business which had a complicated technic of its own, yet despite this fact did not hesitate to invest large sums in it without the proper preliminary investigation, could not in any reasonable sense be regarded as an investor in the business. The very nature of the term, "investor," suggests making careful inquiry first, and investing afterwards. Even though he became involved to the extent of purchasing such a business outright, his position would be little different from that of a plunger in the market who jumps in and out from time to time knowing absolutely nothing about the stock selected for his "plunge," the character of the people behind its management, the characteristics of the manipulation of the stock in the active market, the present and prospective conditions of the business engaged in, nor the technical position of the market at the time.

One can invest foolishly as well as wisely; one can speculate wisely as well as otherwise, but he who gambles is bound to lose in the end. That the investor is open to loss even though he takes every reasonable precaution preliminary to the making of his investment is too self evident to discuss. The Street's history is replete with instances of "good investments" which went bad. Because stock speculators sometimes take losses does not make them gamblers, no more than the making of several successful wagers would make a gambler over into an investor. It is not the end in view, but the means to the end which counts.

For instance, in a recent number the writer discussed the operations of Mr. Bernard M. Baruch in that critical period of the recent market made famous by the investigations of the "leak" probes from Washington and Boston. Doubtlessly, the popular conception of Mr. Baruch, made national by the wide publicity given his testimony by the press, is that he is a "plunger" in stocks who stands all day with one eye on the ticker and the telephone receiver continually attached to his ear, awaiting some mysterious "word" from high places, on the receipt of which he immediately proceeds to buy or sell several hundred thousand shares of stocks. In the article referred to, the writer endeavored to correct that obviously absurd impression, describing to some extent the methods used by large and important speculators in their operations.

The Real Stock Speculator

Behind the activities of the real stock speculator, and separating him from the gambler who also deals in stocks on margin or otherwise, is a thoroughgoing knowledge of the business in which he is engaged, an experience long and ripe enough to enable him to understand beforehand the difficulties of the situation he undertakes to forecast and anticipate by his commitments, and a sufficient amount of capital to see him through a series of setbacks from which the most skillful are not at times immune. Such an operator is truly a

speculator in stocks, no matter what the basis of his margins may be, nor the amounts he may designate to risk on any or all of his commitments. On the other hand, it is idle to maintain that the trader who operates on somebody's say so, some broker's "inside information," or just as the result of succumbing to a desire to "get in the market" because everybody else seems to be "in" and making loads of money, is doing anything but taking a chance, and whether he likes the appellation or not (and probably not!) he is little removed from an amateur gambler on a small or large scale, according to the size of his operations rather than the extent of his margins.

The Speculator a Market Asset

The stock speculator has his proper place in the economic scheme of things. His expert judgments, made a vital force by the weight of his commitments, give balance to quoted values, stimulate activity in times of depression, and force conservatism when enthusiasm soars to unwise heights. He is a forward looking man, whose eyes see into the future and who is not afraid to back up his prophecy with his capital. Deprived of his activities, the stock market would be a very dull affair, devoid of imagination and a poor place, indeed, for the promoter to go who seeks new capital for the development of either old or new enterprises. Speculation in stocks, as conducted by the considerable number of people so engaged at the present time, is so interwoven with the money market, the banking and investment interests of

the country as well as its commerce, that to try to eliminate it by legislation or any other means would be a backward step for the business world to take.

Any measure which hinders the speculator in stocks or handicaps him in his efforts to carry on his legitimate business is a blow at the effectiveness of the Stock Exchange. And no well informed man will question the usefulness of the Stock Exchange in the present day business world. Prices on the Stock Exchange register the current opinion or appraisal of values and the state of trade, in much the same manner as the thermometer registers heat or cold. It is one of the most highly organized and efficiently administered organizations in the world, public or private. During every business day of the year, with the exception of the legal holidays, it offers an open market for the sale and exchange of securities which are accepted as good collateral at any bank. Because of the immediate facilities which it affords for the conversion, through ready sale, of the securities which it lists, it gives greater elasticity to the money market and enables bankers to provide ample funds for commercial purposes on short notice.

Through the medium of the Stock Exchange new enterprises of merit are readily financed, and those which are already established, and which from time to time need additional capital, are enabled to meet their requirements. It is an agency which performs a great and necessary work in the modern round of business, and stock speculation is a legitimate part of its activities.

MARKET STATISTICS

		Dow Jones Avgs.		50 Stocks		Total Sales	Breadth (No. Issues)
		20 Inds.	20 Rails	High	Low		
Monday,	Feb. 12.....			STOCK EXCHANGE CLOSED			
Tuesday,	" 13.....	92.38	98.08	81.69	80.78	390,700	178
Wednesday,	" 14.....	91.86	97.15	81.52	80.82	316,300	182
Thursday,	" 15.....	91.65	96.90	81.09	80.30	286,700	191
Friday,	" 16.....	91.81	97.14	81.23	80.39	334,800	198
Saturday,	" 17.....	92.70	97.63	81.77	80.98	259,500	182
Monday,	" 19.....	93.66	98.03	82.54	81.59	423,100	208
Tuesday,	" 20.....	94.91	98.68	83.11	81.94	604,800	216
Wednesday,	" 21.....	93.97	99.05	83.64	82.42	567,600	209
Thursday,	" 22.....			STOCK EXCHANGE CLOSED			
Friday,	" 23.....	92.56	98.60	82.71	81.21	549,900	200
Saturday,	" 24.....	92.22	98.53	81.91	81.51	142,700	148

(Lincoln's Birthday).

(Washington's Birthday).

Talks By An Old Trader

Talk No. 8—On Market Judgment

By "B"

THE possession of good judgment is universally understood to be of prime importance in all the affairs of life and is, of course, just as essential to success in speculation as in anything else. In this case, however, in addition to the common or garden variety of horse-sense, we require a particular, specialized form of judgment, having the market itself and its technical peculiarities for its basis.

Market judgment and trading method are more or less interrelated, but the overlapping is, perhaps, not so much as might be supposed. We might say that getting in is nine-tenths judgment and one-tenth method, but getting out again nine-tenths method and one-tenth judgment.

When Once Committed

If you come to think about it, this must be so, if you don't want to get too many speculative black eyes. If you decide not to make a commitment, the worst that happens is that you lose the chance of making a profit. But, once you are in, you have no control over what will happen to the price of your stock, nor can you take your own time in deciding what to do. You have got to make a profit or take a loss, as, if and when the market dictates. You can, to a large extent, control the size of your loss, but you can't call the venture off if you don't like the looks of it!

Poor judgment is shown by a good many serious-minded speculators who are far from regarding speculation as a game or a blind gamble. A good deal of it is, it seems to me, avoidable. It arises, most commonly, in one of two ways: (1) By failure to direct the chief attention to the right thing; (2) By failing to recognize the truth of the old adage that "The only good dope is the dope you dope out for yourself." I will dispose of the second point first, so as to clear the ground.

"What Do You Think of—?"

Anyone who frequents a broker's office regularly is bound to notice how large a part of the more serious talk consists of asking the other fellow what he thinks of the market, or whether he doesn't think such and such a stock is a good buy. I don't hear the subject of getting out of anything mentioned so much. My observation is that a good many people are much influenced by the other fellow's casual say-so.

It stands to reason that more or less competent advice is obtainable, if one knows just where it is, and—knows it when found. If, for instance, a beginner asks me what I think, I suppose I may, without undue conceit, expect to be a better judge of the situation than he is. Ordinarily, however, I would have to give so guarded and qualified a reply that the said beginner would not take much stock in what I said. He would be looking for something downright and definite, without any ifs and ands. He wouldn't have the necessary knowledge and experience with which to appreciate my more conservative opinion, much less act upon it. Lots of men, whose competence is, to say the least, decidedly dubious, are not quite so modest as I try to be. Ten up before one down is their usual style of conversation. I never hear them mention stops.

But suppose that the tyro is lucky enough to get the advice or opinion of a well-equipped and competent market student. The opinion is only good as and when made, and is subject to change at a moment's notice. Does our young friend expect that the other man will run after him to say that he has changed his mind since morning? Again, in the case when the advice of a relatively competent and thoroughly conscientious advisor is obtained, and action taken upon it, for once, there is always the chance that it may happen

to turn out to be one of his bad guesses. And that seems to happen as often as not, if not oftener. I know it does to me. When it does happen—well, no such an old fool ever existed before!

The man who habitually asks casual advice is also apt to seek too much of it. He does not tie up to a single opinion, and act upon it, but will ask half a dozen people what they think, study five "market letters" and read the financial columns of four papers. That makes only fifteen different guesses to choose from! It doesn't pay to use other people's brains or to depend upon the advice of people you suppose to possess them. Either put your account into the other man's hands, bodily, for better or worse, or else set to work to study the market for yourself.

What Market Judgment Is

We now arrive at our real subject, viz., what market judgment is. I know lots of men who think they are making a serious study of the market. In point of fact they are doing nothing of the kind. They are studying a lot of things that are more or less connected with the market, indirectly, but they are not studying the market itself. They stop short of the point at which their accumulated knowledge would begin to be of direct value to them in their operations.

Every speculator must have a general idea about conditions at large, the earnings and other value-features of stocks, the state of the money market and the course of such current events as are likely to affect prices and the speculative temper. Such things are a necessary background to knowledge of the market in its technical aspects, but they are nothing more than a background. It is the commonest thing in the world to hear people talking about the earnings and unfilled orders of Steel, for instance. On December 4, Steel, and a good many other stocks, were selling at prices that, although they had had a big advance, still showed a pretty good income return on the money and good dividend prospects for the near future. But that did not

prevent Steel from having a thirty-point drop and many other things reacting in proportion.

Estimation of Position and Action

Market judgment is the estimation of the existing position and action of the market, or of a stock, in a technical sense. We use market judgment, directly, in deciding the question of highness, (i. e., liability to decline), or lowness, (i. e., potentiality of rising), and indirectly, also, in regard to the question of the suitability of any stock for speculative operations of any given kind or for the selection of the best stock to employ at any given time.

Apart altogether from the question of actual prices, a large part of the speculator's market judgment is based upon his observation of the way in which prices move. A great deal of importance is frequently attached to some forthcoming event, such as the increase in the dividend of an influential stock or the outcome of some important uncertainty outside. The action of the market itself is usually the first real indication we get, and very often the question of profit or loss hinges upon the correctness with which the signs given by current market action are interpreted.

Result of Study

Market judgment is the result of market study, i. e., the observation and weighing of a mass of technical data concerning prices, volumes and time, and their correlation with such facts as can be obtained as to the trading commitments and trading temper of Tom, Dick and Harry. Market data are of two kinds; active, which means the facts relating to the way in which things are moving now; passive, which means how the market acted while leading up to the existing position.

It is also a continuous and perpetually incomplete product, being based on a continuous series of deductions from premises which are, themselves, incomplete and constantly changing. This is a point that is too frequently overlooked. The most carefully studied-out opinion may only hold good

long enough to be arrived at before something happens to qualify it for the discard. This is another reason why I dislike to express an opinion as to the outlook.

The very first thing is to dismiss the idea that anybody can ever know for a fact what the market will do. Men come to me for an opinion and seem to think that, as I am studying the market all the time, I ought to be able to say "ten up before two down," or that we are in for a six months' bull market. The impossibility of such a forecast ought to be obvious, but what is so bad about the idea is the way it puts the mind of the inquirer off the track. In the search for the shadow the substance is lost. One has to take the situation as it is, without the least obsession that a certain thing "ought" to happen. I may think, for instance, that Steel is probably a buy on soft spots for the present, in view of the way it has been acting and of other market arguments. But I have no ideas that it may go to 120, or to 125 or to 150. All that I judge about it is that it is a better buy on soft spots than a sale on strong spots. (This was written January 24. Subsequent happenings demonstrated the essential temporary character of market judgment.)

Observation

The only possible sound basis for market judgment is observation of what it is doing and has done, and how its action now fits in with what it has been doing lately. The word "lately" being highly elastic in this connection, and standing for anything from a week or ten days to six months or a year or more. Moreover, more or less detailed knowledge of the action of a large number of its component parts is necessary. Last year I dealt in five stocks, all told, and the enormous majority of my transactions were in Steel. Yet I find it necessary to observe the action of something like a hundred stocks in more or less detail and to keep, and carefully watch, seven or more "averages."

It stands to reason that adequate and easily inspectionable records are indispen-

sable. It is surely unnecessary to say that no brain can carry all that mass of detail. And it would be a fearful waste of brain-power to make the attempt, even on a limited scale. One has to bear in mind a lot of things that do not lend themselves to methodical record. Why try to remember things that can so easily be recorded in a shape suited to instantaneous and intelligent scrutiny?

Psychology

Finally, market judgment is quite considerably a matter of psychology. The market depends for its speculative existence on certain well-understood peculiarities of the uninstructed public mind. For example, the way to make Tom, Dick and Harry buy stocks, any stocks, all stocks, stocks that they really know nothing about except their names, is to put prices up and make the market active. Usually the assistance of the publicity department and the rumor mill is also invoked. When prices are up, and have been active around the upper levels, it is almost a certainty that our friends have the stocks and that a decline is the next thing on the programme. Everyone knows now how accurately that reasoning worked out last month.

The pity of it is that it is rather unnecessary that when the inevitable readjustment arrives Tom, Dick and Harry should get hurt quite so badly. A few stop orders put in around December 4, would probably not have prevented the shakeout, but they would have minimized it, almost certainly have converted it into an orderly decline, and have distributed the total loss. So we wouldn't now have to hear quite so much squealing. Even by the first week of October any well-posted market student would already have begun to suspect the soundness of the market's underpinning. At the beginning of December he would have felt quite sure that we were treading on eggshells, and that it was only a matter of time before an accident would happen.

(To be continued.)

Technical and Miscellaneous Inquiries

Speculative Positions

Q.—If I am dealing with a broker on margin and he sends me more money than I have got coming to me, can he collect if I refuse to pay, or can he force collection—that is, if I have no record of the stocks bought and sold?

Ans.—Are you going to advise me when I should sell the stocks that you advised to buy, as I understand it you will do this?—B. S. M., Buffalo, N. Y.

Ans.—You will be fully and promptly advised through the Trend Letter when we consider it advisable for you to sell the stocks which you have bought according to the instructions in the Trend Letter. It is impossible now for us to say how long it will be before this time arrives.

Your broker could force you to pay what you owe him, provided he has evidence of buying and selling instructions that you gave and evidence that the orders were properly executed. The fact of your not having any records has nothing to do with the matter.

He would have to show that he had overpaid you but if such be the case your only honorable course would be to refund at once without compelling him to take legal steps.

"Liquidation" and "Good Delivery"

Q.—Will you kindly send me information as to the meaning of the term "liquidation" as it applies to investment securities, and also what constitutes a good delivery in stocks.

Ans.—Liquidation, of course, means selling. The term is generally used in describing selling of a character which takes place in a declining market or one which has already declined. This kind of selling is accepted as indication of lower prices. Smith's Financial Dictionary gives the definition of liquidation as "Closing of transactions either compulsorily or voluntarily."

Stocks and bonds are a "good delivery" in fulfillment of contracts entered into on the New York Stock Exchange which meet all the requirements of the Exchange. A holder of stocks or bonds when the transaction occurs, on an exchange, must deliver the securities and collect for them at the buyer's place of business. In a transaction on the New York Stock Exchange, where settlements are made daily, the broker who sells a stock in the regular way, delivers it to the buyer on the following day (except Saturday—when a stock is sold on Friday, it is delivered on Monday). In the case of a cash transaction, the stock is delivered the same day.

There are over thirty rules for delivery, but in short, a "good delivery" means that a stock must be bought or sold in the regular way, the certificate delivered on the following day (before 2 p. m.) and the certificate must be properly endorsed by the stock exchange house which sold the stock.

Q.—Another question, I understand that on odd lot deals that the following rule is in force:

To illustrate, I ordered 10 shares A. C. M. Pref. at 90. It sold at 90, then at 89½. I expected my price would be 89½, but when I made inquiry I was told that the rule was where a bid was made at 90 and the first sale was made below that figure, even though considerably under, the rule was to fill the order at the bid which, in that case, was 90. Now with another broker I inevitably can depend on receiving my price at ¾ above the quotation at which a sale is made after order has been placed, and to illustrate I would, had I placed that order with him, most assuredly received it at 89½. Both are New York Exchange Houses and absolutely of good standing. Which is right?—J. T. M., Philadelphia, Pa.

Ans.—There are two methods in use in placing odd lot buying orders. The one is to place your order to buy "on sale," the other is to specify as you did, the buying price. In the latter case some of the odd lot brokers will usually hold the buyer to his bid price, even though the next sale may be considerably under. Your broker, who has to buy the stock through the odd lot broker, has no recourse. The best way to avoid this is to put your order in to buy "on sale" and then the odd lot broker is compelled to give you the stock at one-eighth above the price at which the next hundred share lot or more sells.

Marine Certificate.

Q.—On Nov. 27 I purchased 100 Marine preferred certificates. I sold same on Dec. 19. I then closed my account with broker Jan. 1, 1917. On Jan. 31 I received a memorandum showing debit of \$100, with notation, "Charges exchanging 100 Marine certificates for stock. No market for certificates when sold." Do I owe a fee for exchange as mentioned, and if I do is not \$100 excessive charge?

Ans.—Holders of Marine certificates, preferred or common, up to and including Dec. 9, 1916, were assessed \$1 per share for exchanging the certificates into stock. This assessment was made to defer the expenses of the reorganization committee, who worked out the plan of adjustment on the bonds and suggested a plan for the payment of back dividends on the preferred stock. The payment had to be made to make the stock a "good delivery."

Call Renewal Rate

Q.—What was the average (over whole year) rate for call money for 1911, 1912, 1913, 1914, 1915 and 1916?

Ans.—The average call renewal rates from 1911 up to and including 1916 are as follows:

1911	2.602%
1912	3.713%
1913	3.23%
1914	3.766%
1915	1.959%
1916	2.592%



Cotton Exports Falling Off

Serious Result of Shipping Situation on Cotton Exports—
High Priced Food May Affect Cotton Acreage—Ger-
man Owned Cotton in America

By O. D. HAMMOND

JUST after the turn of the new year the exports from the United States out of the crop of 1916 exceeded the exports of the corresponding period of the previous year by over 900,000 bales. This was before the British Government limited the tonnage available for cotton in English ships and before the German Government declared its ruthless submarine warfare on all commerce on the high seas. Since these two events, cotton exports have fallen off materially and this 900,000 bales' excess over last year has been cut to a scant 600,000 bales' excess. Exports at the present writing are falling off rapidly and each week shows a loss over the corresponding week of a year ago.

In addition to the fear of submarine destruction of the cargo and in addition to the order in Council cutting down the proportion which cotton tonnage may bear to food and munitions, there is, according to late Liverpool advices considerable agitation in England, for a further restriction on cotton shipments and for the closing of the Liverpool cotton exchange as a war measure. In other words the idea seems to be to take the matter of cotton imports into England out of private hands and put it entirely under governmental control leaving the government to say how much cotton is needed for munitions and for clothes, and to fill all cargo space by official allotment. If this happens, and many English cotton merchants believe it

imminently probable, it will be an additional interruption of the usual controlling factors of supply and demand.

Although the American Line was not a heavy carrier of cotton the withdrawal of all their ships from the European trade is not without its effect on cotton shipments. The tonnage usually carried by these ships must seek other bottoms and that will have just that much less space available in other ships for cotton cargoes. Then again the scarcity of cotton room is augmented by the recent destruction of some 400,000 tons of shipping by German submarines. The necessity for food and munitions is crowding cotton from the ships.

On the other hand, the American consumption of cotton for January was the heaviest, save for one single month, in the history of the spinning trade, exceeding 600,000 bales for the period. Home consumption not only equals but exceeds expectations while exports, due to the exigencies of war, have failed to come up to those expectations that were predicated upon the tremendous exports of November and December last.

We have reached the season now when soil preparation and planting will play an important part as a price making factor. Planting has already begun in the earliest producing counties of Texas along the Rio Grande. Plowing and preparing the soil is general throughout Texas and all along the Gulf Coast embracing the Southern

tier of counties in Louisiana, Mississippi, Alabama and Georgia as well as throughout Florida.

Acreage Increases

As the planting season progresses we will hear all kinds of reports of acreage increases. Already estimates are being made of 40,000,000 acres as against 36,000,000 acres last year. The increased price of cotton over recent years might well prove an incentive for some such enormous acreage if there were not other weighty factors to be considered when the farmer comes to pitch his cotton crop. In the first place the farmer will not prepare the land and plant a crop larger than he can see his way to completing. He already sees the scarcity of labor which in many districts is most acute. His fertilizer is excessively high and his initial preparations have been made at a heavy increase in cost over former years. Secondly, the planting season begins at a time of the highest known price level for food products. With potatoes selling at \$4.25 per bushel, onions at 20c per pound and food riots breaking out in various parts of the country, it is scarcely reasonable to suppose that the farmer will not hear the warning cry and plant more food products. He will at least plant food products for his own requirements—many cotton planters have heretofore not done this. High priced food will act as a restraint on an excessive cotton acreage, especially as the high food prices are coincident with the planting season. Again the farmer must know that in event of our going to war with Germany a considerable number of those farm hands who have heretofore resisted the call of the factory and the munition plant would be called out as soldiers. He faces a possible further shortage of labor. It is not as if he could plant a big acreage with the intention of abandoning some of it, if later events made it necessary. That was often done in other years, but now with high priced fertilizer and high priced labor it costs money to pitch a cotton crop; and the writer is not one of those city bred men who

think all farmers are stupid or have no business sense.

However, suppose there is a great increase in acreage, as great as many claim to believe. With the labor conditions certainly no better than normal, with the boll weevil curse extended from Texas to Georgia, it is by no means certain that a forty million acre planting will, under present conditions, produce more than a thirty-six million acreage properly cultivated. Too great scattering of effort is frequently an economic waste and is a losing game.

Price Variations

There is a great disparity now as there has been, ever since the market began to break from the 21c. level of last December, between the price of spot cotton in the South and future contracts in the New York market. Spot cotton in the South has held remarkably well in the face of the decline in futures. Some adjustments of these differences must occur sooner or later. The export situation may become more serious and cause the South to sell or the planter may be unwilling to hold his cotton over after he begins to plant the new crop.

Although there is no definite information available, as to who owns the remaining bales from last year's crop, it is a matter of general knowledge that German and Austrian interests own and control from 500,000 to 600,000 bales of cotton in American warehouses. The question arises whether in event of a war between America and Germany, there would be any sudden unloading of this cotton upon an unwilling and perhaps frightened market.

Much would depend of course upon the Washington authorities' interpretation of the right of private individuals of an enemy country to own property here. If the Government confiscated it, it would perhaps be sold. If it was not confiscated it would still perhaps be sold to be converted into cash. If sold in competition with Southern owned cotton it would tend to break the present disparity between spots and futures.

Wheat Market Drifting

By P. S. KRECKER

WITH a fairly effective submarine blockade maintained at sea and freight congestion serious at home, the wheat market has been drifting aimlessly until something develops pointing to relief in either or both directions. Sentiment continues badly confused. It is evident that the market is without a leader on either the bull or the bear side, a condition which would suggest that large operators are pursuing a waiting attitude. Agitation against the high cost of food may result in some tangible action by the government looking towards permanent relief. Whatever the outcome, it can hardly be regarded as a bull argument on wheat. Neither can the submarine warfare nor the interruption to domestic traffic be so regarded. Opinion on the ever present possibility of the United States entering the war is mixed as regards the effect on wheat values. The probability is that, should this country become a belligerent, it would be a passive combatant devoting its energies chiefly to asserting the rights of its citizens on the seas. In that event the participation in the war would not involve any pronounced drain on the supply of farm labor nor any other extraordinary change in economic conditions, and might not prove a vital factor either way in the wheat market.

Desperate efforts are being made to restore normal conditions on the railroads and it is hoped that within a comparatively short time the serious phases of the congestion will have passed. Meanwhile, foodstuffs are receiving a preference. While American ships are moving in only small numbers and other neutral shipping is semi-paralyzed, the vessels of the Allies are transporting wheat along with other supplies in goodly volume and the export movement is sustained although below normal.

New crop conditions are a growing factor in the market. There has been

abandonment of wheat acreage in the Southern States, particularly in Central Texas, because of the cold wave.

While statistics indicate the early estimates of the yields of all of the large producing countries of the world were too low and that supplies, therefore, are more liberal than was supposed last Fall when wheat was making its high prices, foreign powers are taking further steps calculated to reduce the consumption of wheat. Broomhall cables that the government of Great Britain has restricted the use of flour to 31 pounds per capita each week. Stockholm advices state that the Swedish government has decided to take over all stocks of cereals. Lines are tightening on consumption everywhere in Europe. This is important as tending to counterbalance the world's shortage. Such steps are negative influences on the speculative markets.

Foreign Planting

While data on new planting of wheat in Europe is limited to fragmentary information, some statistics are available. The International Institute, for example, has just issued an estimate of the area sown to winter wheat in France, placing it at 10,569,000 acres or 85 per cent. of the previous year, while the area sown to rye is placed at 89.9 per cent. of the previous year. With acreage thus sharply reduced, the semi-official report placing the condition of winter wheat in France at only 65 per cent., compared with 74 per cent. the previous year, takes on additional significance. Insufficient supply of fertilizers and inadequate cultivation also are factors militating against a good yield.

Offsetting this information, regarding France's wheat crop is the estimate by the *Indian Trade Journal* that the wheat area of India is 31,000,000 acres, against 28,500,000 acres last year.

Book Reviews

These books are for sale by THE MAGAZINE OF WALL STREET.
Prompt attention will be accorded all orders.

THE BUSINESS OF TRADING IN STOCKS

By "B."

(Price, \$2.06 Postpaid.)

A NEW and revised edition of this successful book is just published. In the volume the author has set forth in plain language the principles and methods which he has used in successful trading in the stock market. There is no guess work about what he says and no question as to the value of the method which the author sets forth.

Among other things the volume points out the colossal ignorance of the average trader and shows just what facts should be looked up before a commitment is made. However, most attention is given to the actual method of trading. One of the strongest features of the book is the discussion of charts, in which is set forth the minimum amount of chart work which should be carried on for a clear view of market actions.

As the title indicates, the subject is treated as a business, and the reader is shown that in this, as in any other enterprise, he must not deviate from those principles and methods which have proved to be the most successful in the long run. The student of economics will find much of interest and value in this book. The long time investor can also get much of help from it, and the active speculator will find it brim full of vital suggestions which will increase his profits and limit his losses.

The book has been brought up to date so as to include the changes due to the war, but it is significant that the author found that the peculiar conditions which have existed since the commencement of the war have in no way affected the fundamental principles which he set forth in his earlier edition of the book.

THE TICKER BOOK AND MANUAL OF THE TAPE

Quarterly, \$5.00 per Year; Single Copies, \$1.50

THIS issue of this valuable work for the first quarter of the year is now published. The book is a key to the sign language of the ticker with a description of every corporation whose securities are quoted thereon, giving its capital stock and bonds, and complete dividend history, transfer officers, names of officers and range of prices for the period from 1903 to date.

It is a book which should be on the desk of every investor and trader who cares enough about his commitments to look into the fundamental standing of the corporations in whose securities he is investing.

BUSINESS ENGLISH

By Geo. B. Hotchkiss and C. A. Drew. (Price, \$1.15 Postpaid.)

EVERY business man, in fact, every one who writes letters about business subjects, will find this book a remarkable aid. It is not only a guide book to good English, but is also an illuminating text book on salesmanship in letters, and on advertising.

Throughout the whole volume the authors take pains to point out the correct attitude to be taken in writing the particular kind of letters under consideration. There is particularly good treatment of the subject of claims and adjustments and collection letters, which, as every business man knows, ought to be handled diplomatically and yet firmly. This book points out how both may be accomplished with success. It also takes up in detail the subject of sales letters, showing in a very practical manner how selling campaigns of this kind should be laid out; how to write effective selling letters; and how to appeal to various classes of people. That the book is of real worth is indicated by the fact that the senior author is professor of business English in the New York University School of Commerce, Accounts and Finance.

Other features of value are discussions of business forms and usages, and a clear explanation of filing systems, legal points in correspondence and economy in telegrams and cablegrams. Every principle is illustrated by means of an example, showing a letter written in accordance with the suggestion set forth. In many cases there are also letters showing mistakes which should be avoided.

STANDARD MANUAL OF THE INCOME TAX 1917

(Price, \$2.60 Postpaid.)

IN a previous issue of this magazine we called attention to two excellent books on this subject. The present volume is equally excellent, but is based on a slightly different plan and therefore does not conflict with the two we mentioned before.

This volume classifies and indexes all the official regulations and rulings that have been issued since the beginning of the Income Tax Law. The arrangement is such that there is no difficulty in finding the particular point on which the reader may wish information.

When one is making up their income tax return sheets and stumbles on a doubtful question this book will solve the difficulty.

